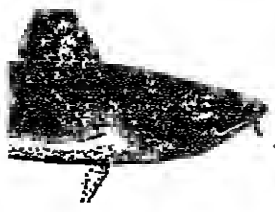
Airline mergers
Learning from the Alcazar failure
Page 12

Exporting democracy
How the west should sell its values
Foreign affairs, Page 14



Grounds for debate
Can the North Sea's fish stocks last?
Environment, Page 11

Uneasy partnership
The Basque Country
Survey, Pages 27-30

FINANCIAL TIMES

Europe's Business Newspaper

WEDNESDAY NOVEMBER 24 1993 D8523A

Fiat plans to cut 5,000 jobs from auto workforce

Fiat, Italy's largest private group, is planning to cut 5 per cent of its workforce in the Italian automotive sector and to lay off a further 10 per cent for up to two years.

Almost 5,000 jobs are to be axed but some union officials voiced the fear last night that the cuts might be far greater if Fiat was unable to make extensive use of the government-backed scheme financing temporary lay-offs. Page 16

Olive branch for North Korea: President Bill Clinton offered North Korea the prospect of talks on "a thorough, broad approach to the issues that divide us", providing it abandoned its nuclear option and honoured non-proliferation commitments. Page 16

Takeover probe 'was needed': The European Commission should have investigated the effect of British Airways' takeover of Dan-Air on airline competition on routes between Britain and France, Air France told the European Court of First Instance. Page 2

Elf Aquitaine, French oil group scheduled to be next year's first big privatisation, warned that 1993 profits would fall to just over FFr1bn ($169m), compared with 1992's FFr6.2bn. Page 17

Gaidar calls for 'sensible protectionism'

Russian deputy prime minister Yegor Gaidar called on the government to apply "sensible protectionism" to the country's industrialists and entrepreneurs. Mr Gaidar, pictured left during a press conference yesterday, denied he had changed his ultra-liberal views over the past two years to win votes in next month's parliamentary elections. Protection for business was a popular theme in the election campaign, he said. Page 16

Work limit agreed: European Union ministers passed directives on working time, setting a 48-hour week limit and guaranteeing mandatory time off. The legislation also limits the time children and adolescents can work. Page 16

Warning on Mideast peace: King Hussein opened the first session of Jordan's newly elected parliament by reaffirming his commitment to the Middle East peace process but warning that peace would not be achieved unless Israel gave up its claim to Jerusalem. Page 4; Israel and PLO draw the line in Jericho sand, Page 4

Delta Air Lines has put on hold earlier plans to launch a big expansion of its Asia-Pacific operations, with chairman Ron Allen saying the airline wanted to concentrate on returning sustained profits. Page 17

US deadlock over guns: A chaotic conclusion to the congressional session found the US legislature still deadlocked over the issue of handgun control, while handing President Bill Clinton provisional victories on other issues. Page 6

Plea for ethical banking: Banking ethics should be taught as a separate subject in training courses, to counter the competitive and commercial pressures facing bankers, UK banking ombudsman Laurence Shurman said. Page 9

ABB Asea Brown Boveri, world's largest power engineering group, reported flat profits of $215m before tax and non-recurring items for the third quarter. The group said only Asian markets were strong, with demand in continental Europe still weakening. Page 18; Siemens and ABB expand eastward, Page 7

Pilot rescued from Iraq: Mechanical failure caused a British Harrier jump jet fighter aircraft to crash in a Kurdish area of northern Iraq it was patrolling. The pilot ejected safely and was rescued by an American helicopter.

Aid pledge for Kenya: Kenya was promised $850m in aid - with enough due next year to cover its 1994 external financing requirement - provided it settles repayment of some $700m in arrears. Page 4; Nigeria head, Page 4

New FT Statistics: Following the introduction in Tuesday's FT of the new design of our statistical pages, a number of readers have telephoned or written in with comments. We are grateful for the many helpful suggestions received, all of which will be carefully considered in the next few weeks.

■ STOCK MARKET INDICES		
FT-SE 100:	3069.3	(-1.3)
Yield	3.67	
FT-SE Eurotrack 100	1325.47	(-5.85)
FT-A All-Share	1517.68	(-0.0%)
Nikkei	closed	
New York: lunchtime		
Dow Jones Ind Ave	3669.87	(-0.28)
S&P Composite	459.89	(+0.76)
■ US LUNCHTIME RATES		
Federal Funds:	3%	
3-mo Treas Bills: Yld	3.188%	
Long Bond	98¾	
Yield	6.336%	
■ LONDON MONEY		
3-mo Interbank	5⅞%	(6⅛%)
Liffe long gilt future:	Dec 115¼	(Dec 115¼)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Jan)	$15.59	(15.88)
■ Gold		
New York Comex (Dec)	$377.3	(378.5)
London	$378.25	(379.0)

■ STERLING		
New York lunchtime:		
$	1.487	
London:		
$	1.4855	(1.4745)
DM	2.5275	(2.5125)
FFr	8.775	(8.73)
SFr	2.2125	(2.2025)
Y	161.25	(159.75)
£ Index	81.4	(81.0)
■ DOLLAR		
New York lunchtime:		
DM	1.699	
FFr	5.9	
SFr	1.486	
Y	108.445	
London:		
DM	1.701	(1.7035)
FFr	5.9075	(5.92)
SFr	1.49	(1.493)
Y	108.5	(108.23)
$ Index	67.0	(66.9)
Tokyo markets closed		

Italian prime minister summons parties to forge consensus as lira declines

Ciampi moves to save budget

By Robert Graham in Rome

Mr Carlo Azeglio Ciampi, the Italian prime minister, has called Italy's main political parties to a series of meetings today to hammer out a consensus on the 1994 budget.

Fears about the fate of the budget, now the central raison d'etre of Mr Ciampi's government, provoked further falls yesterday on the stock exchange and in the value of the lira. At one stage the Italian currency dipped below the psychological barrier of L1,000 against the D-Mark. But the lira recovered slightly after Mr Ciampi's decision to hold special budget meetings.

Mr Ciampi's move was prompted by hints from disgruntled Christian Democrats and Socialists that they would withdraw support in parliament after their parties' disastrous performance in Sunday's municipal elections.

Mr Achille Occhetto, the leader of the former communist Party of the Democratic Left (PDS) and the principal victor of Sunday's poll, publicly supported Mr Ciampi, vowing to continue backing him until the budget had been approved. Mr Occhetto added: "The turbulence in the financial markets cannot be justified in any way by the political and electoral events in Italy."

This statement too helped to calm market nerves. As Ansa, the national news agency, pointed out ironically: "It is the first time that a leader of the left's words have had a relatively positive effect on financial markets".

The PDS has emerged after the elections in 428 towns and cities as the one party capable of forging alliances up and down the country. This has given it a central role as the Ciampi government winds up business and prepares for early general elections.

The four-party coalition forming the government's parliamentary majority now accounts for little more than 15 per cent of popular support. Mr Occhetto has acted quickly to take advantage of his new position to cast himself as the leader of a future government coalition, and is seeking to dispel long-held prejudices against the left in government.

The discredited Christian Democrats could break apart after last Sunday's electoral performance in which support dropped to as low as 10 per cent.

Christian Democrat leader Mr Mino Martinazzoli issued a statement strongly denying that the party planned to pull its ministers out of the government, but Mr Martinazzoli himself is drawing huge criticism within the party over its rout at the polls.

Earlier, GR-2 state radio reported that interior minister Nicola Mancino had argued that the Christian Democrats should back Mr Ciampi on the budget, but immediately make clear that the only reason it was not walking out of the government was to avoid a lira crisis.

This situation has undermined parliamentary discipline, and many members are in no mood to sanction budget legislation that undercuts their privileges and those of their friends in the public administration.

Without a special pact involving as many political groups as possible, parliamentary business is likely to become very difficult if not impossible.

Hence Mr Ciampi's meetings today with the Christian Democrats and the other three parties that support him in parliament, as well as four opposition parties on whose neutrality he will depend, the PDS, the Northern League, the Republicans and the Greens.

Proposed exemptions raise fears of discrimination against foreign services companies

US tax stance threatens trade talks, says Gatt

By Frances Williams in Geneva

An attempt by the US to seek tax exemptions in a proposed Uruguay Round accord on services is putting the whole round at risk, Mr Peter Sutherland, head of the General Agreement on Tariffs and Trade, warned yesterday.

The US wants the freedom to treat foreign services companies differently from local ones for tax purposes.

At a meeting with Mr Les Samuels, the US Treasury's assistant secretary for tax affairs, Mr Sutherland said Washington's proposed exemption was unacceptable to the other 114 participants in the round.

The issua is now expected to go before Mr Lloyd Bentsen, US Treasury secretary, and the US cabinet.

Gatt officials reported Mr Sutherland as saying that an unlimited right to discriminate in taxing foreign services suppliers would undermine the benefits of the draft services accord in guaranteeing fair treatment for companies establishing a commercial presence abroad.

The US position, announced a month ago after two years of laborious negotiations on a tax clause for services, has infuriated other countries.

Soma have already threatened to take similar exemptions for themselves. This would leave foreign-based services companies around the world vulnerable to tax discrimination, which would devalue any benefits they received from better access to markets.

Mr Sutherland told Mr Samuels, who on Monday failed to convince trading partners of the justice of the US position, that the tax exemption could prove "extraordinarily counterproductive". US companies, being the most active abroad, would be the biggest losers.

The draft services text allows countries to tax foreign services suppliers differently, for instance, to combat tax avoidance, provided this does not amount to discrimination. The wording eventually adopted was supplied by the US, Mr Sutherland noted.

Mr Samuels argued that the tax clause in the services agreement would upset the existing system of bilateral tax treaties, and could tie the hands of Congress in enacting new tax laws.

However, no other country, including the 50 or so with double taxation agreements with the US, sees a threat to the existing system.

Mr Samuels' remarks on new legislation have only added to fears that Washington is planning tough and possibly discriminatory legislation on taxation of foreign companies.

Mr Samuels has denied that the US has any discriminatory intentions. But, in that case, Mr Sutherland asked yesterday, why was it seeking complete freedom to discriminate, a freedom that would also ensure that affected governments had no remedy through multilateral disputes procedures.

With just three weeks to go to the Uruguay Round deadline of December 15, the issue has become urgent. Final country schedules specifying market-opening commitments for services and any exemptions are supposed to be submitted by the end of this week.

Talks between US trade representative Mickey Kantor (left) and chief European trade negotiator Sir Leon Brittan entered a second day in Washington. Page 7
Associated Press

EU threat to snuff out old Swedish habit

By Christopher Brown-Humes in Stockholm

An obscure Swedish devotion to wet snuff has emerged as a significant stumbling block in the country's ambition to join the European Union.

Mr Ulf Dinkelspiel, Sweden's minister for European affairs and foreign trade, gave a warning yesterday that if Swedes were not able to continue buying the substance, in defiance of an EU directive, it would be almost impossible for the country to win a referendum supporting EU membership.

The directive, which came into force in July, bans on health grounds the marketing and sale of wet snuff, a tobacco-derivative known in Sweden as "snus" that is typically inserted between the gum and upper lip.

Oral snuff-taking is a centuries-old tradition in Sweden - something the country is only too keen to prove to Brussels with examples of 17th-century price lists or 18th-century snuff boxes. Today as many as 800,000 Swedes, or one in ten of the population, are regular users and last year they consumed more than 5,000 tonnes of the stuff.

Sweden wants to be permanently exempted from the tobacco directive, saying it is the only issue on which it is seeking a "derogation" from EU rules. Although the EU has not formalised its position, it is understood to be considering giving Sweden a temporary exemption, followed by a review of the matter in five or ten years time. That is not acceptable to the Swedes.

"All we are asking is that 800,000 Swedes should have the right to continue snuffing," said a clearly irritated Mr Dinkelspiel yesterday.

The issue is very sensitive for pro-EU Swedes. They fear that if the union proves intransigent, it will be seen as unwarranted interference.

"It would be like banning ouzo in Greece," says Mr Olof Allgardh, an adviser to Sweden's snuff manufacturers in Brussels.

Clearly the issue is having an impact in Brussels. The word "snus" is now to be heard in the corridors of power as regularly as its English translation.

Surprise UK interest rate cut seen as clue to budget

By Peter Marsh and Kevin Brown in London

Mr Kenneth Clarke, Britain's chancellor of the exchequer, yesterday surprised industry and the City with a half-percentage-point cut in UK interest rates.

However politicians and business leaders were divided over whether the timing and size of the cut to 5.5 per cent foreshadowed tax rises in next week's budget greater than the £3bn ($4.47bn) expected by many economists.

Mr Clarke, keen to demonstrate that changes in interest rates will be influenced by economic events rather than political considerations, announced that the Bank of England would be in future decide the timing of shifts in borrowing rates.

The cut brought UK bank base rates to their lowest level for 21 years. It was quickly followed by quarter point reductions in mortgage lending rates by the Nationwida, Britain's second largest building society, and National Westminster Bank.

But tha broad welcome for the first cut in UK interest rates since January was tempered by disappointment that Mr Clarke had failed to bring down borrowing rates by a full point.

The move was interpreted last night in business and political circles as a sweetener ahead of next Tuesday's budget when Mr Clarke is expected to announce a fiscal tightening of up to £3bn to curb the £50bn public sector borrowing requirement. Any changes announced in the budget will come on top of tax increases of £6.7bn already announced for next April.

The rate cut was authorised by Mr Clarke last week, although he left the precise timing to Mr Eddie George, the governor of the Bank of England. This practice will be followed in all future changes in interest rates as part of a government effort to increase the credibility of monetary policy in the eyes of financial markets. Sterling reacted positively to the announcement, gaining 1¼ pfennigs on the D-Mark to close last night at DM2.5275, while against the dollar it put on more than 1 cent, finishing at $1.4855.

On the London stock market, the FT-SE 100 index of leading shares came back from a 20-point loss prior to the rate-cut announcement to close 1.3 points down at 3,069.3, below the day's highs and after a highly volatile session marked by investor worries about the budget package. Long-dated gilts gained a quarter of a point, on theories that the

Continued on Page 16
Cost of house loans, Page 8
Rubbing each other up the right way, Page 14
Editorial comment, Page 15
Lex, Page 16
Markets, Section II

CONTENTS

 No 32,226 Week No 47 LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

Riva fails to meet Ekostahl deadline

By Judy Dempsey in Berlin

Riva, the Italian steel group which is bidding to buy Ekostahl, eastern Germany's largest steel mill, yesterday failed to meet a deadline set by the Treuhand privatisation agency to clarify how it would modernise the plant.

Treuhand officials said they were "disappointed" because tha agency, despite opposition from the Germany's Steel Federation, is anxious to speed up the sale of the mill so as to secure jobs, investment, and markets for the region.

Riva, the Milan-based privately-owned company, obtained sole negotiating rights earlier this month from the Treuhand to buy Ekostahl, and had until yesterday to spell out its efficiency and production plans.

The Italian company confirmed it had not responded to the Treuhand'a request for more details, but declined to explain why it had missed the deadline.

Riva is expected to buy 60 per cent of Ekostahl, while the Treuhand will hold the remaining 40 per cent stake. Together tbey will inveat DM1.2bn (£470m) in building a hot rolling mill, the equivalent of a mini mill with an annual capacity of abont 900,000 tones.

Trenhand officials said it was unclear if the delay by Riva was caused by last week's opposition by Britain, France and the Netherlands to proposals put forward by the Enropean Commission to restructure western Europe'a steel sector.

Officials added the agency was "very angry" with Britain for opposing the Commission's proposals, although France and the Netherlands had also opposed the plans on the grounds that they were not strict enougb in reducing capacity.

A British official said that opposition from Mr Tim Sainsbury, the UK industry minister, was not directed specifically at Ekostahl but at the steel industry in general.

European Commission prepares four separate economic studies

Brussels seeks jobs blueprint

By Lionel Barber in Brussels

Over the next fortnight, Europe's political leaders will be hit with a blizzard of paper recommending ways to combat unemployment and spur an economic recovery.

The European Commission is preparing no fewer than four separate studies on tbese topics, an exercise which has strained the bureaucracy's powers of co-ordination to its limits. Even supporters admit there is duplication and overlap.

The Brussels paper trail includes a *Green Paper on the future of European* social policy drawn up by Mr Padraig Flynn, the Irish commissioner; a Commission document setting out "broad economic policy guidelines" to be adopted at next month's EU summit; a paper on the state of "convergence" among the 12 member states' economies; and Mr Jacques Delors' own White Paper on employment, competitiveness and growth, which will borrow liberally from all the above.

Mr Delors, approaching his 10th and final year as Commission president, is keen to go out on a high note. The White Paper has become something of a last will and testament which he hopes will lift EU leaders' sights above their short-term difficulties to the long-term future of the European economy. Mr Delors' dilemma is how to influence the debate at a time when member states are increasingly looking for national – rather than pan-European – solutions to their economic problems. The Bank of England's half percentage point reduction in its base lending rate yesterday underlined the trend. At a meeting of EU finance ministers last Monday, Mr Delors pleaded for an open-minded debate; but his prescriptions for job creation, such *as a shorter working week, lower retirement* age, compulsory cuts in overtime and more "solidarity" between those in and out of work appeared to be given short shrift.

Mr Kenneth Clarke, the UK chancellor of the exchequer, dismissed the ideas as "folly" and claimed they would actually create more unemployment. Mr Johann Eekhoff, Germany's state secretary for the economy, said such measures could only be "a short-term emergency instrument". Mr Jean-Claude Juncker, Luxembourg'a finance minister, said shorter working hours would send a "negative, defeatist signal" to Europe's workers.

Similarly, finance ministers expressed concern about the difficulty in cutting employment taxes.

Though there is general recognition that it is necessary to encourage businesses to hire labour, ministers are worried that the loss in state revenue will have to be made np with higher taxes, auch as valued added tax or new environmental levies. There is also a widespread reluctance to commit to specific targets either on interest rate cuts, or the ambitious target of creating 15m jobs by the year 2000. Mr Delors' aides insist that the tone inside Monday's meeting was friendly, with ministers welcoming the Commission's analysis of the structural economic problems facing the Union. Yet the question of the prescription persists and will form the core debate at the European summit in Brussels on December 10 to 11.

So far, there is a curiously tentative tone to the latest drafts of the White Paper. The opening section disavows any intention to legislate, and it explicitly recognises that solutions must be tailored to member *states' needs.*

About the only strong statement the Commission makes is a rejection of the US "trickle-down" model of reducing income disparities and improving job creation through more wealth creation.

Commission officials also predict there will heve to be substantial revisions of the White Book's chapter on employment. There is widespread scepticism about claims that up to 1m jobs could be created through tighter environmental standards and more "green" public and private sector inspectors by the end of the century. Similar assertions about the potential for employment in the arts and leisure industry are also viewed with suspicion inside the Commission. "They seem to want to turn Europe into a giant Disney park," said one official.

Mr Delors faces a delicate balancing act, uniting his fellow commissioners behind his own White Paper and then winning the support of the member states for a general plan of action. He must also square the circle between his support for the European social welfare state and the need for more labour market flexibility. Much work still needs to be done.

Spain's conservative opposition party, the Partido Popular, said yesterday that Mr Abel Matutes, the EU energy commissioner, is to leave Brussels early next year to lead the party in the European elections next June, writes Tom Burns in Madrid. Mr Matutes has served on the Commission for the past seven years.

A fellow PP politician, Mr Marcelino Oreja, will take the position, one of two Spanish commissioners.

Merck executive warns on healthcare spending controls

Cuts in drugs bills 'ineffective'

By Paul Abrahame

European governments' efforts to cut drugs bills are ineffective and counter-productive, according to Merck & Co, the world's largest pharmaceuticals group.

Mr David Anstice, Merck'e senior vice-president for European buman health, warned at a conference in Brussels yesterday that drugs spending cuts would not have a meaningful impact on overall expenditure because medicines represented sucb a small part of healthcare spending.

Most European countries could control health spending more effectively through other means, he argued. Many were paying large amounts for the wrong sorts of medicines.

Doctors should alter prescribing habits to provide better value for money for patients. This meant prescribing more innovative medicines, fewer traditional treatments of dubious efficacy and more off-patent generic drugs.

Only a quarter of government spending on medicines was on patented drugs. Half, on average, was spent on over the counter non-prescription medicines – which could be paid for by the patient – or generic pharmaceuticals from one source. The latter tended to be traditional remedies restricted to a single country and lacking any efficacy, Mr Anstice said.

As for patented medicines, doctors probably prescribed too many acute therapies such as antibiotics, analgesics, and tranquillisers. On the other hand, some illnesses such as arteriosclerosis were undertreated.

Savings could be made in distribution and dispensing for which European governments were paying too much. Distribntion and dispensing cost more than 50 per cent of the price of prescription pharmaceuticals, compared with 20 to 25 per cent in the US.

The European wholesaling industry might need to rationalise, cutting costs and becoming more competitive. This would allow it to pass on lower costs to government purchasers, Mr Anstice said.

Structural changes were required in healthcare delivery, he said. Governments needed to measure the performance of healthcare delivery not only through costs, but also outcome of treatment.

Pharmaceuticals companies which failed to keep high standards in medical marketing should face stiff sanctions.

A Bosnian woman who was among 14 badly wounded people evacuated from Sarajevo yesterday Reuter

Serbs again halt aid convoys

Bosnian Serbs yesterday blocked aid convoys trying to reach Moslem enclaves in central Bosnia in spite of pledges by Serb leaders to allow the relief effort to resume after a near one-month suspension, our Foreign Staff writes. Serb military leaders yesterday held up four convoys heading for the eastern towns of Tuzla, Srebrenica and Sarajevo, all designated UN "safe areas". Meanwhile, Mr Warren Christopher, US secretary of state, cautioned yesterday against any premature lifting of sanctions against Serbia, as proposed by European Union leaders on Monday, in return for more land for the Moslems. Mr Christopher said in a radio interview the Serbs had to first make firm commitments.

Air France case on Dan-Air opens

By Andrew Hill in Brussels

The European Commission should have investigated the effect of British Airways' takeover of Dan-Air on airline competition on routes between Britain and France, Air France told the European Court of First Instance yesterday.

The French state carrier told the lower chamber of the European Court that last year's takeover of Dan-Air, the troubled UK carrier, had allowed BA to increase its share of the France-UK routes using London's Gatwick airport from 45 per cent in 1991-92 to 61 per cent in 1992-93.

The Commission claimed in October last year that the takeover – for a nominal price of £1 – was not large enough to fall under European rules governing mergers. Shortly afterwards the British government cleared the deal.

Evidence submitted to yesterday's oral hearing in Luxembourg will now be assessed and the court should rule on the case in the first half of next year. Dr Ami Barav, a European law consultant to the London solicitor Theodore Goddard, said yesterday that a decision against the Commission in the Air France case could have far-reaching implications for Brussels' procedure for vetting merger cases.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193, Represented by Edward Hugo, Managing Director. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41, Fax 33 93 53 35.

Kiev faces sanctions in nuclear row

By John Lloyd in Moscow

The Russian government may cut off gas supplies to Ukraine and impose other economic sanctions to force it to destroy or return the nuclear weapons on its territory to Russia.

Officials in the Russian capital say the pressure will be used "reluctantly" but add they are determined to use it if Ukraine does not carry out its ohligations to return the missiles. Mr Andrei Kozyrev, the Russian foreign minister, said at the weekend that Ukraine was becoming a "new nuclear power".

Ukraine's parliament in Kiev ratified the Strategic Arms Reduction Treaty (Start I) treaty last week but, in doing so, proclaimed itself a nuclear state and defined the treaty as applying to only abont one-third of the 1,600 missiles it holds.

Mr Leonid Kravchuk, the Ukrainian president, said on Monday that "Ukraine wants to and will destroy its nuclear weapons".

At the centre of the issue is Ukraine's demand for money from the west to pay for the destruction of the nuclear stockpile.

The US has proposed $175m to assist, which Ukraine says is not enough.

Mr Vladimir Kryzhanovsky, the Ukrainian ambassador to Moscow, said yesterday that "our requests for compensation cause nothing but surprise on Russia's part" and said that the destruction or transfer of the weapons could "not be speeded up".

Mr Anton Butelko, the Ukrainian president's foreign policy adviser, said on Monday that "the status of Ukraine is unique. This is a new situation – Ukraine is not a nnclear state hnt owns nuclear weapons."

Ukraine is, however, highly vulnerable to Rnssian pressure.

The Ukrainians depend heavily on their neighbour for oil and gas supplies and are already deeply in debt for their extensive energy needs.

An accord between Mr Kravchuk and Mr Boris Yeltsin, the Russian president, on the handing over of nuclear weapons and of Ukraine's half of the Black Sea Fleet to Russia reached earlier this year in the Crimea now seems to be a dead letter.

This has prompted charges from Russia of bad faith on the part of Ukraine.

Price Waterhouse to advise Russia on Lada sell-off

By Leyla Boulton in Moscow

Russia's Avtovaz, the producer of Lada cars, has hired Price Waterhouse as its auditors and advisers ahead of moves beginning next month to privatise a flagship of Russian industry.

Mr Nikolai Glushkov, deputy director of Avtovaz, said it had hired the firm primarily to enhance the plant's ability to attract western finance.

Some 25 per cent of Avtovaz shares will be sold at an auction next month, using vouchers which have been distributed to Russia's 160m citizens. Another 22 per cent will be offered at a separate investment tender next month to big corporate investors. But Mr Glushkov said he hoped to attract foreign investors through capital increases planned for next year.

As proof of its commitment, Price Waterhouse has set up a special office of 20 people at Togliatti, the remote industrial town built specially for the factory and its 100,000 workers.

Mr Peter Rogers, a Price Waterhouse partner responsible for the Togliatti operation, said the contract extended beyond auditing. "We're advising them in a broader sense. We're training their accountants, setting up an international accounting department, and providing a wide range of advisory services."

Avtovaz employees and management will receive 51 per cent of the company's present capital. Avtovaz has ambitious expansion plans and wants to produce a new family of cars. It is taking part in a separate industrial consortium which wants to produce a lower-quality car in the Opel Corsa range.

Mr Glushkov said Avtovaz, which last week signed an agreement for a $150m (£101m) loan from n Swiss finance company, was holding talks with various western car makers, including Fiat, which helped Avtovaz produce its Lada car in the first place.

EU urged to accept Norway's oil rights

By Karen Fosell in Oslo

Mr Abel Matutes, outgoing European commissioner for energy, said yesterday he supported Norway's request for a protocol attachment to the country's EU accession agreement that would clearly state Norway could continne to have sovereign rights over its nil and gas reserves, should it become a memher of the Union.

Following two days of energy negotiations in Oslo with Mr Jens Stoltenberg, Norway's industry and energy minister, Mr Matutes said he would recommend Norway's reqnest be approved hy the European Council of Ministers.

Norway, western Europe's biggest oil producer and one of its largest suppliers, is concerned that a draft energy agreement, due to be adopted at a meeting of EU energy ministers on December 10, would force it to relinqnish sovereignty over petroleum resources.

"On energy we have made a lot of progress and I have agreed to seek to add a protocol to Norway's membership application which will recognise Norway's full sovereign rights over [oil and gas] resources," Mr Matutes said, adding that he would recommend the protocol be accepted by Mr Hans Van den Broek, EU commissioner in charge of accession negotiations.

One other leading issue discussed by the two energy officials included that of Statoil's future role and status should Norway become an EU member and the management by Statoil of the state's direct financial interests in oil and gas licences.

"We discussed different models combining Norwegian interests in having strong, effective control hnt at the same time taking care of equal treatment of all oil companies," Mr Stoltenberg said.

Norway fears that once the EU's energy directive is adapted, and it becomes an EC member, it would have to change Statoil's structure and the way it is currently managed.

Statoil is antomatically given a certain percentage in all oil and gas licences and the state also takes a direct shareholding, which Statoil manages on its behalf. Usnally the combined shareholding can reach 50 per cent and often exceeds that amonnt.

Both men said important progress on energy issues had been made during their talks, hnt that technical details needed to he agreed before these issues could be resolved. "We have discussed ways to find technical solntions to political problems," Mr Stoltenberg said.

French welfare in terminal state

Recession has added to the woes of a system in need of reform, writes **David Buchan**

For more than 500 days and nights a small group of nurses has maintained a protest sit-in outside the Ministry of Social Affairs on the Avenue de Ségur in Paris, with a tenacity matching the persistence of the crisis in France's welfare state.

Neither the nurses nor the crisis will go away. The nurses, who are protesting at understaffing and poor pay in Freoch hospitals, promptly bought themselves a new tent when "someone" set their old one alight in early November. For his part, the prime minister, Mr Edouard Balladur, warned this week that the deficits in the country's various welfare schemes – pensions, unemployment and health insurance, and family allowances – were worse than he planned for six mooths ago.

The chief reasoo is not that Freoch welfare beoefits are lavish, though they are so in the medical field.

The crisis has, rather, been brought on hy the recession and the fact that the funding of the French welfare state is still little changed from its origin as a series of schemes co-financed hy employers and employees.

Welfare contrihutions hy employers and employees accounted in 1990 for no less than 44 per cent of total French tax receipts, compared with 17.5 per cent in the UK, and a paltry 3.1 per cent in Denmark, which funds its generous welfare provisions out of general taxation.

The recession, the worst France has experienced for 20 years, has shaken the financial foundation of its welfare state. The 3.24m people without jobs (11.7 per cent of the work force) no longer have anything to cootribute to the system, which in turn seems to be part of the reason for their unemployment. High social charges have helped price workers, especially those with relatively low skills, out of the job market.

There is now a consensus that for reasons of equity and efficiency the burden of France's welfare state must be shifted off company payrolls and on to taxpayers. A start was made in 1990 when the Socialist party iotroduced the CGS tax, levied on all forms of income (not just wages), paid hy virtually all French households (rather than just the 50 per cent who pay income tax) and designed to top up the various welfare schemes.

Mr Balladur has since doubled the CGS tax rate, and hegun in his 1994 hudget to shift the cost of family allowances that employers have to pay for their lower-paid workers on to the national hudget.

The prime minister said this week he wants to shift bealth insurance charges in the same directioo.

The recession's most obvious impact bas been on the Unedic unemployment insurance scheme, which has falleo steadily deeper into the red.

The prospect that the scheme might actually go bankrupt at a time of rising unemployment hrought actioo in July.

The government agreed to put in FFr10bn (£1.14bo) a year, the employers chipped in with a further FFr9.35bn, employees are cootributing an extra FFr6hn, aod though they did oot have a say in the matter, the unemployed themselves in effect contributed FFr4hn through a reduction in dole payments. "In theory, this is enough to keep the scheme going up to a level of 3.6m unemployed," says an official of the Patronat employers' federation.

That figure is not a total abstraction, since even Mr Balladur does not foresee unemployment coming down until late 1994.

An ageing population, coupled with a rising level of structural unemploymeot, made reform of the state peosion system inevitable, with fewer people in work to pay the pensions of more people in retirement.

The government did not chaoge the legal retiremeot age of 60, but instead this summer introduced legislatioo extending from 37.5 to 40 years the period which people need to work to qualify for a full state pensloo and recalculated this full pension oo the average of a person's 25 best-paid years, rather than his or her 10 best-paid years. "Strangely, pension reform which many thought would rock the system passed very quietly," says a senior aide to Mrs Simone Veil, the social affairs minister.

"One reasoo was that the change has heen staggered over 10-15 years."

To supplemeot reduced pay-as-you-go state pensions, and also to create the big pension funds which play such a big role io other countries' financial markets, the government aims to present a plan next year to introduce capitalised private pensions.

It may be only then that the magnitude of this year's changes to state pensions sinks in, as the Freoch of working age realise that they are being asked to cootribute twice over – once to those curreotly retired and ooce to their new private pensions.

The biggest scope for savings is in health spending, which is higher than anywhere else in Europe and second only to the US.

The French system is an expensive combination of freedom of choice (patieots can pick their doctors, doctors can prescribe what they like) and of financial intervention by the state (which reimburses patients 70 per cent of what they pay doctors and a hit less for medicines, while picking up virtually the eotire tab for hospital treatment).

Mrs Veil is trying to get a handle on the soaring spending which this system produces.

Aiming to save some FFr30bn next year, she has set the rise in hospital spendiog at 3.35 per cent in 1994 (compared with 5 per cent this year), while trying to oblige hospitals to "pay" for new equipment like scanners with a compensatory saving like eliminating unnecessary beds.

Of the country's 500,000 hospital beds, 60,000, mainly in rural areas, are said to be surplus to requirements. She has less direct leverage over geoeral practitioners working outside hospitals.

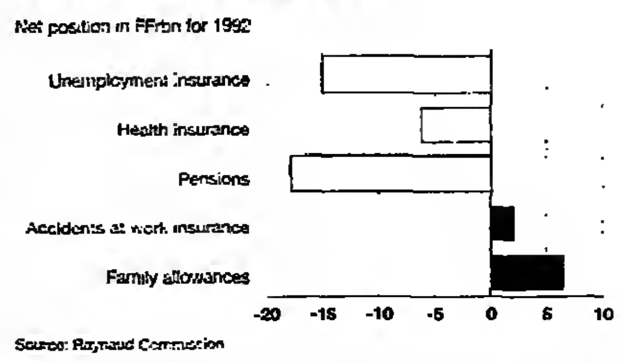
But the latter have agreed with the state health insurance agency to aim at limiting the rise in overall health spending to 3.4 per cent next year (compared with a 7 per cent increase this year).

Criteria are being drafted on what constitutes "unnecessary" medical treatment, with the threat of financial sanctions oo doctors who ignore such guidelines.

But so far it is the carrot, rather than the stick, that has been applied. To reduce their financial incentive in prescribing pills, doctors had their consultation fees raised on November 1.

This is the sixth article on welfare stotes around the world. Previous nrticles oppeored on October 25, November 3, 8, 17 and 19

France's ailing welfare state



Source: Raynaud Commission

Nigeria's debt arrears pass $5bn

By Michael Holman and Paul Adams in Lagos

Arrears on Nigeria's $30bn (£20.4bn) external debt exceed $5bn, presenting the country with its most serious economic crisis since independence, say local economists and western creditors.

Without a rescheduling agreement, arrears will rise, external support from donors such as the World Bank will be suspended, industry will continue to function well below capacity, and the country's economic decline will continue, raising the spectre of political instability.

Prospects of an economic policy agreement with the International Monetary Fund receded following last week's removal from office of Chief Ernest Shonekan, and the assumption of power by General Sani Abacha.

An IMF deal is an essential condition to debt rescheduling. An agreement is unlikely within a year, say creditors.

In 1993, Nigeria's official bilateral creditors were owed $2.4bn in loan principal and interest payments, nearly all of it to the Paris Club, but by the end of August less than $100m had been paid.

Nigeria fell seriously into arrears last year and by the end of 1992 its arrears in bilateral interest alone were $1bn, with interest and principal arrears reaching around $3bn by March 1993 when the former finance minister, Mr Oladele Olashore was summoned to Paris for an explanation.

In 1992 Nigeria serviced only $167m of its bilateral debt service, having averaged around $1.3bn a year in 1990 and 1991.

Priority for external debt service goes to the World Bank, but Nigeria narrowly avoided Bank suspension in early November, when it paid $140m or three months debt service almost two months in arrears.

If a member country is 60 days late in paying, the World Bank automatically suspends all its loan operations.

Nigeria's net capital flows with the World Bank have been negative for the last three years, averaging $247m a year. According to the World Bank, its disbursements to Nigeria are slow because of bureaucratic and legal bottlenecks, lack of counterpart funds, inefficient procurement and design flaws in some projects.

Economists say Nigeria has run up arrears in debt service to the other main multilateral creditor, the African Development Bank.

The other priorities for debt service are its par bonds and promissory notes, which are performing well, and supplier credits. In 1992, Nigeria serviced nearly all its $480m debt payments to suppliers and has continued to keep up substantial payments to defence contractors including Dornier of Germany, according to Central Bank cash flow statements.

The dollar value of Nigeria's debt has grown by about 50 per cent since the launch of a structural adjustment programme in 1986, and by the end of last year stood at nearly $30bn, equivalent to 113 per cent of GDP.

● Nigeria's new military rulers named a Provisional Ruling Council. Gen Abacha is chairman and defence minister. Baba Gana Kingibe, running mate of thwarted presidential candidate Moshood Abiola is foreign minister.

Apart from justice and foreign ministers, the only civilian council member will be Alex Ibru, publisher of the Lagos Guardian newspaper, who is named interior minister. Nigeria debt, International Capital Markets

Israel and PLO draw the line in Jericho sand

Julian Ozanne on talks over the size and shape of the area for Palestinian self-rule

Within a few months Mr Yassir Arafat will take up residence in the dusty, palm-fringed town of Jericho, the planned de facto capital of Palestinian self-government, after nearly half a century of exile.

Yet, so far, no one knows what area around Jericho Mr Arafat and his embryonic government will control.

Yesterday Palestinian and Israeli peace negotiators began talks on the size of the Jericho area from which Israeli troops will begin to withdraw in less than three weeks. It is certain to prove one of the most difficult and sensitive issues on their long peace agenda.

The fact that the two sides are now discussing Jericho is a sign of how far they have come and how far they still have to go to reach a protocol, due to be signed on December 13. It will provide for a phased four-month Israeli troop pull-out from the occupied Gaza Strip and Jericho and the handover of policing and administration to Palestinian hands. Palestinian elections are planned for next July.

When negotiators began discussions on how to implement the historic Israeli-Palestinian peace accord the task seemed well-nigh impossible.

Although the peace agreement provides only for an interim and partial solution to the problem, many of the issues that have had to be solved, such as security and claims to territorial sovereignty, cut to the heart of the conflict.

But in the past five weeks the two sides have proceeded at a furious pace, reaching broad agreement on a range of complex security problems such as policing, the future role of the Israeli military and the first release of Israeli-held Palestinian prisoners. By all measures the negotiations have been a remarkable achievement in beginning to solve one of the world's most intractable conflicts.

Now the size of Jericho and the future economic relations between Israel and the Palestinian economy, which is also being discussed in Paris this week, are the most substantive issues left on the agenda.

The eventual size of Palestinian-controlled Jericho could be anywhere between 25 sq km (the present area of the town's municipal boundaries) and 345 sq km (the size of the old British mandatory Jericho district). Israel is pushing for the smallest possible area while the Palestinians are demanding the full 345 sq km. For both sides the shape and size of the Jericho area is critical.

Israeli military officials say the Jericho district includes two significant defence lines – the Jordan line east of Jericho and the fortified hill line west of the town. Military experts say the Jordan line is essential for defence against external threats and are demanding Israel continue to hold a 5km strip west of the river to control the Jordan river and prevent armed infiltration of guerrillas into Israel. The hill line, they say, is critical to controlling the area around the town and the road to Jerusalem and has several army facilities.

The second big concern for the Israelis is security of the Jewish settlers who will continue living in the Jericho district. There are three Israeli settlements close to the town – Vered Jericho, Mitzpe Jericho and Beit HaArava. Israeli officials say they could evacuate Jericho town and the Palestinian refugee camps of Ein Sultan and Akabat Jaber without surrendering the two defence lines and the three settlements.

The Israelis are likely to press for three Israeli-controlled enclaves in the Palestinian-controlled areas to protect a total of six settlements, including the three close to Jericho town.

The Israelis also want to build a bypass road around Jericho to allow settlers to travel on roads controlled by Israeli security and police. The Israelis will also demand full control over the Allenby border crossing into Jordan.

Palestinian officials say they could accept most Israeli security concerns if Israel is generous with its surrender of a large area of territory. Palestinian concerns about the size of Jericho focus on the viability of the area, control of economic and water assets and access to Jordan.

Mr Khalil Tewfakji, a Palestinian cartographer, says the Palestinians are largely concerned with economic interests and want to secure the agricultural and tourism resources of the Jericho area and have a large enough area to allow the construction of houses, offices and industry.

The Palestinians are pushing for the control of all major religious and tourist sites around Jericho. They also want the area to extend to the northern shore of the Dead Sea to allow the Palestinian entity to begin its own salt-producing industry and to give the Palestinians a direct and independent crossing to Jordan by ferry.

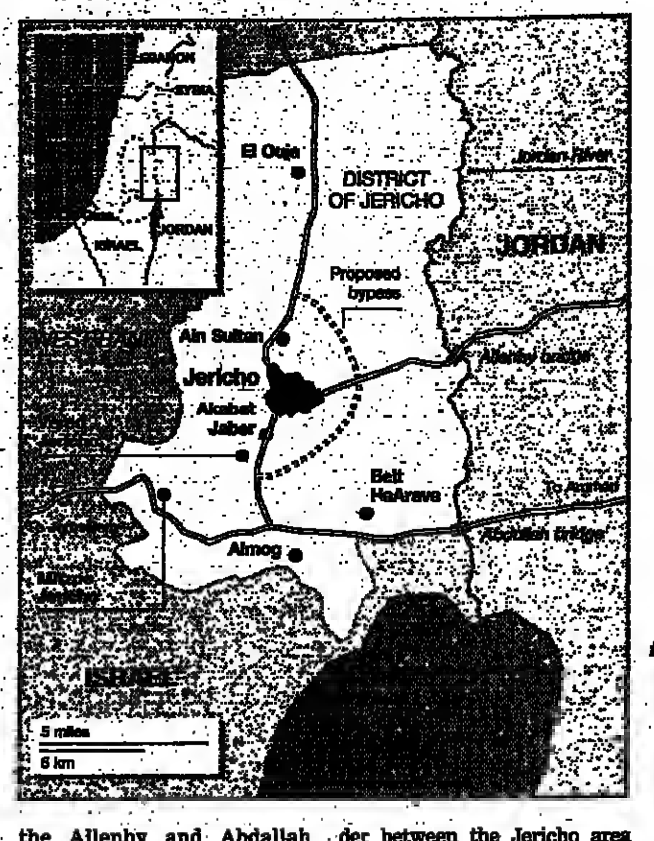
Also critical to the Palestinians, especially for agriculture, is control of the water resources of the area, in particular the water springs at El-Ouja and control of the Almog junction which provides access to the Dead Sea, Jerusalem, the rest of the West Bank and the Abdullah bridge.

The Palestinians seem prepared to concede Israeli control of the 5km strip east of Jericho along the Jordan Valley but are demanding a corridor to the Allenby and Abdallah bridges and joint-administration of the border crossings.

Although the Palestinians have been saying that the border between the Jericho area and the rest of the occupied West Bank is likely to be temporary, both sides realise there is much to play for at this stage of the negotiations.

Mr Yassir Arafat, Palestine Liberation Organisation chairman, has withdrawn as regular chairman of the economic council he set up to channel foreign development aid to the West Bank and Gaza Strip, PLO officials said yesterday, Reuter reports from Tunis.

Palestinian economic experts and some potential donors had criticised the original structure of the council, saying it had too many politicians and not enough experts. Mr Arafat will now chair only an advisory council which will meet about twice a year to set strategy. The economic council, the Economic Council for Development and Construction, is now divided into two institutions – the advisory council chaired by Mr Arafat and a board of governors to run day-to-day affairs.



Kenya is pledged $850m in new aid

By David Buchan in Paris

Kenya was yesterday promised $850m (£577m) in new aid - with enough due next year to cover its 1994 external financing requirement - provided it settles repayment of some $700m in arrears.

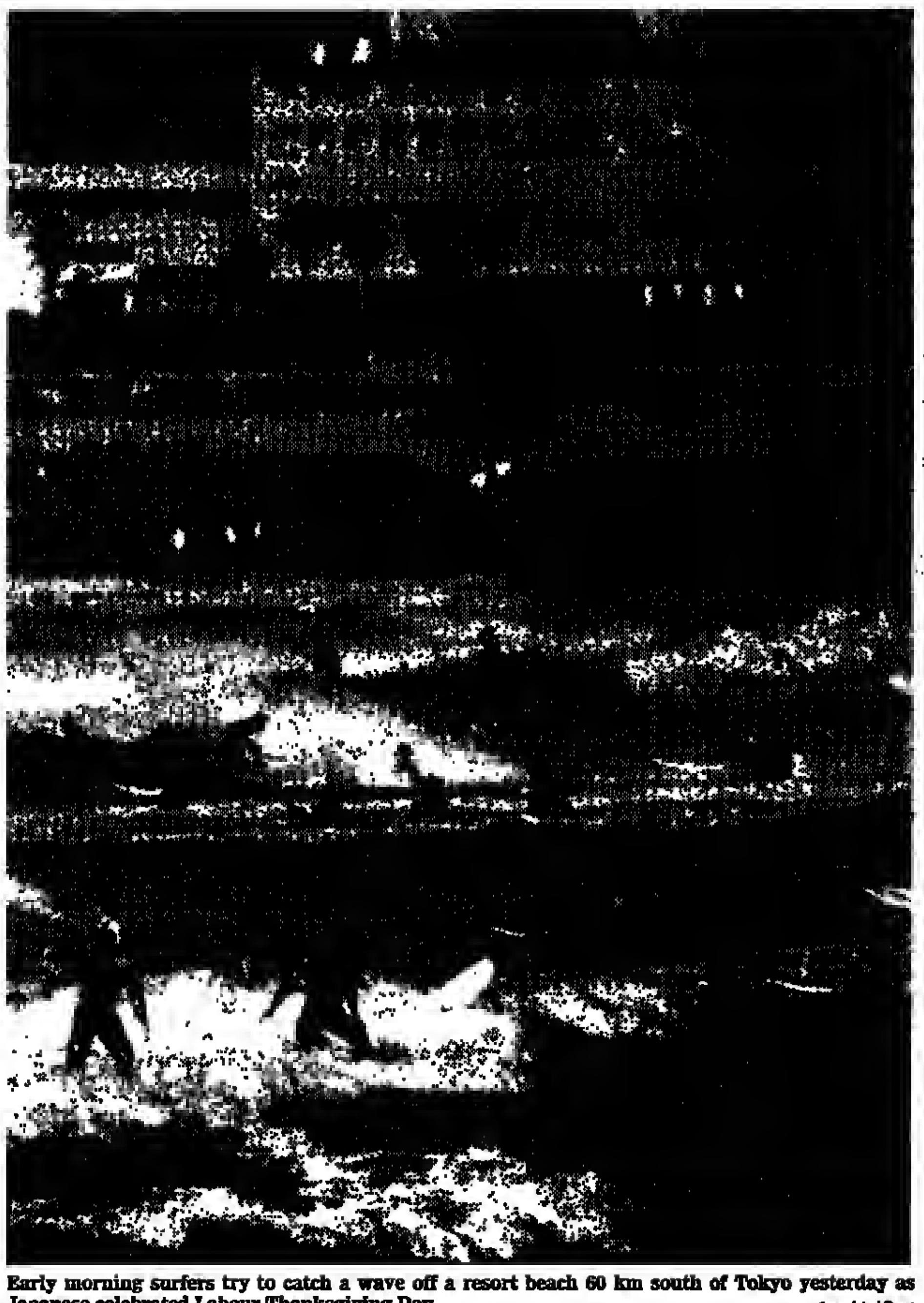
Mr Musalia Mudavadi, Kenya's finance minister, indicated that, in all but name, he was planning a standard reschedulling of debt arrears with the Paris club group of official creditors. He hoped Kenya would soon "come to a reasonable arrangement on a multilateral basis" on the debt arrears.

But the minister shied away from calling it a standard Paris club operation, apparently for fear that this might damage efforts to restore investor confidence in the Kenyan economy.

Of the $850m in new aid pledged by donor countries yesterday, some $170m will be in the form of quickly-disbursed balance of payments aid. This will, in effect, bridge the country's 1994 financing gap, provided the arrears on past debt is separately settled. The bulk of the aid pledged yesterday is money for development projects spread over several years, but Kenya is due next year to get some $350m worth of project aid resulting from past pledges.

Mr Mudavadi said there was "no strict conditionality" attached to the aid, but he freely conceded concerns about ethnic clashes and corruption expressed by donors in a frankly-worded communique issued by the World Bank which chaired yesterday's meeting.

Mr Mudavadi admitted that donors had insisted that "elements of corruption should be dealt with firmly". The minister himself stressed that the government's recent "corrective" measures to root out corruption would be continued, and were not just a show to placate foreign donors at this week's Paris meeting.



Early morning surfers try to catch a wave off a resort beach 60 km south of Tokyo yesterday as Japanese celebrated Labour Thanksgiving Day *Associated Press*

Jordan takes guarded steps towards peace

By James Whittington in Amman

King Hussein yesterday opened the first session of Jordan's newly elected parliament by reaffirming his commitment to the Middle East peace process. However, he warned that full peace would not be achieved unless Israel gave up its claim to the city of Jerusalem.

He said his government is taking "foolproof [and] wisely regulated steps" towards peace with Israel. But he stressed the need for dialogue among Jews, Christians and Moslems on the future status of Jerusalem. "We recognise no sovereignty over [the city] except that of the almighty God," he said.

Jordan endorsed an agenda for peace with Israel on September 14, a day after the Palestine Liberation Organisation and Israel signed their agreement in Washington. Since then, several understandings on economic relations with Israel, the environment, water, and land have reportedly been secretly initialled. King Hussein has acknowledged that items on the agenda will be agreed in a piecemeal fashion but has so far ruled out talk of an imminent unilateral agreement.

Although behind-the-scenes progress is being made, the king has repeatedly called for urgent talks on Jerusalem. Under the PLO-Israeli deal the city's status will not be negotiated until after a two-year interim period. The Hashemites have strong links with the city. East Jerusalem was part of Jordan between 1948 and 1967 and the king's grandfather and great-grandfather are buried there. The king is personally funding renovation work on Moslem holy sites in the city, including the Dome of the Rock mosque.

While Jerusalem is set to be one of the more difficult sticking points between Jordan and Israel, the kingdom's 80-member parliament should be less reactionary to prospects of peace than its predecessor. The number of deputies opposed to peace has fallen as a result of the multi-party elections held on November 8.

In his speech, King Hussein said Jordan expected economic growth of 6 per cent for this year, while inflation would not exceed 4.5 per cent.

● The council of ministers yesterday unanimously endorsed next year's JD1.5bn (£1.4bn) draft budget, Reuter adds.

The budget will be formally presented to parliament early next month for final approval. King Hussein said local revenue in next year's budget would cover current costs and a large part of capital costs. He pledged to continue economic reforms agreed with the International Monetary Fund.

The debt-ridden country has counted on foreign aid to reduce chronic budget and balance of payments deficits.

Iraq keeps up shelling of marsh Arabs

Iraqi troops have continued indiscriminate artillery bombardments of Shia Arabs in the southern marshes, although aerial attacks ceased with the imposition of a Security Council no-fly order, writes Michael Littlejohns at the UN. A UN report, prepared by Mr Hans van der Stoehl, a former Dutch foreign minister, is a severe setback for Iraq's case for the lifting of sanctions.

It coincides with the current visit to New York of Mr Tariq Aziz, Iraqi deputy prime minister, who is trying to convince Security Council members his government has complied with all relevant resolutions and should be allowed to resume unrestricted oil sales.

But Mr van der Stoehl rejected this argument. As for the Iraqi claim for sanctions to be lifted on humanitarian grounds, he said Baghdad had refused an opportunity to sell oil worth up to $1.6bn (£1.07bn). He blamed the plight of Iraqi civilians, including the marsh Shias, on the Iraqi government.

Ivory Coast nearer crisis

Ivory Coast edged closer to a constitutional crisis yesterday,with the main opposition party arguing that ailing President Felix Houphouet-Boigny is no longer able to govern, Reuter reports from Abidjan.

State-run media maintained e news blackout on the health of Mr Houphouet-Boigny, Africa's longest-serving leader, not seen in public since returning on November 19 from prostate surgery in Europe. The Ivorian Popular Front, the main opposition party, says Mr Houphouet-Boigny can no longer run the country.

Electricity workers staged a brief strike on Monday and Abidjan's main hospitals are due to be hit by a strike today. Civil service salaries are being paid np to three weeks late, an unprecedented delay.

Philippine-IMF negotiations to resume in January

By Jose Galang in Manila

The Philippines' stalled negotiations with the International Monetary Fund for e new economic programme will resume in January, Mr Howard Handey, the fund's representative in Manila, said yesterday.

Mr Handey added that Mr Michel Camdessus, the IMF managing director, had agreed to visit the Philippines early next year to review progress in the negotiations and the country's economic performance.

Mr Camdessus yesterday met Mr Fidel Ramos, the Philippine president, in Washington at the end of Mr Ramos's two-week trip to the US.

Manila's negotiations with the IMF have been deadlocked over the government's inability to get its Congress to approve new tax measures aimed et reducing the fiscal deficit.

The Philippines' last economic stabilisation programme with IMF support ended in March. Negotiators failed to secure the funds for a successor scheme.

The negotiators had been aiming for a three-year, $800m (£543m) exit programme, which would end IMF monitoring of the Philippine economy. However, local officials have recently scaled down expectations to another short-term credit facility instead.

The Philippines has been under pressure from its official donors to conclude a new programme with the IMF on which further assistance could be pegged.

Imbroglio boils up for a business emperor

The Elliott affair is extraordinary, even by Australian standards, Nikki Tait writes

Life for John Elliott, the Melbourne-based businessmao, has undergone an abrupt volte-face.

A few years ago, he was running a multi-billion-dollar corporate empire with interests ranging from Courage and Foster's beer to agribusinesses and resources. Now the possibility of criminal charges looms, after a federal court judge yesterday lifted an injunction barring the Australian authorities from investigating or bringing a case, ceotred on alleged corporate theft, against him.

The judge's ruling follows a 17-day bearing over the merits of that injunction and could still be overturned on appeal, an option which Mr Elliott's counsel quickly indicated would be pursued. But the delay may be brief. The judge agreed to suspend any lifting of the injunction to allow an appeal to be lodged in "an appropriately short period".

Already the "Elliott affair" has proved extraordinary, even by the rumbustious standards of Australian business behaviour. For Mr Elliott, who denies any impropriety, has countered the threat of criminal charges with allegations that the National Crime Authority's interest in the business affairs of his former Elders IXL company has been politically motivated. The NCA, for its part, has said that its investigation stems solely from the possibility of serious wrongdoing.

At the heart of the imbroglio, according to statements of claim lodged by Mr Elliott and an Elliott associate, are a series of complex foreign exchange transactions dating back to 1988. These are said to have involved Elders IXL, which was Mr Elliott's quoted company in the 1980s, the Bank of New Zealand, and companies connected with executives of Equiticorp, the failed New Zealand-based group.

The transactions between Elders and BNZ are said to have taken place in January and September that year, and resulted in an aggregate loss to Elders of around A$66.5m (£29m). Companies connected to Equiticorp executives, also dealing via BNZ, benefited by a like amount at similar times.

The Elliott camp claims these deals were part of a "normal" hedging operation, related to Elders' exposure to sterling at that time. The loss to Elders in New Zealand, it is claimed, was made up in the UK.

But talk of payments between Elders and Equiticorp is not entirely new. It surfaced last year, during the trial of Equiticorp's former chief executive, Mr Allan Hawkins, who is now serving a six-year jail sentence. Mention was made then of a mysterious "H-fee". One witness said that he assumed the fee, allegedly paid from Elders to Equiticorp, was in some way connected to the bid situation surrounding Broken Hill Proprietary in the mid-1980s, although he stressed this was an assumption.

Elders had snapped up a near-19 per cent interest in the steel and natural resources giant, in April 1986; a few weeks later, Equiticorp followed suit, buying a smaller interest which was eventually sold on to the late Robert Holmes à Court, another Australian entrepreneur.

Whatever the outcome of potential inquiries by the NCA, assuming it is eventually allowed to pursue them, the twist is Mr Elliott's assertion he has been the victim of a political conspiracy. The former Liberal party president claims this started in 1989, before the 1990 federal election, and was designed to damage both himself and the Liberal party.

Justice Michael Foster was plainly unimpressed. In yesterday's ruling, he described suggestions that the NCA had abused its powers and deprived Mr Elliott of his civil rights as "rhetorical flourish". While the judge acknowledged that Mr Elliott "was being made, as he asserts, a political target by Labor party politicians", he also said it "would take a quantum leap to infer... that the NCA had entered into an unlawful conspiracy with politicians and the media to attack Elliott's reputation".

With that in mind, he ruled there were no grounds for a civil court to intervene in a criminal matter. "That the laying of charges against the applicants should be further delayed until the ultimate disposal of these proceedings would, in my view, be a quite unacceptable interference with the administration of criminal justice in the state of Victoria," he stated firmly.

The drama, like many of Mr Elliott's previous corporate machinations, looks set to run.

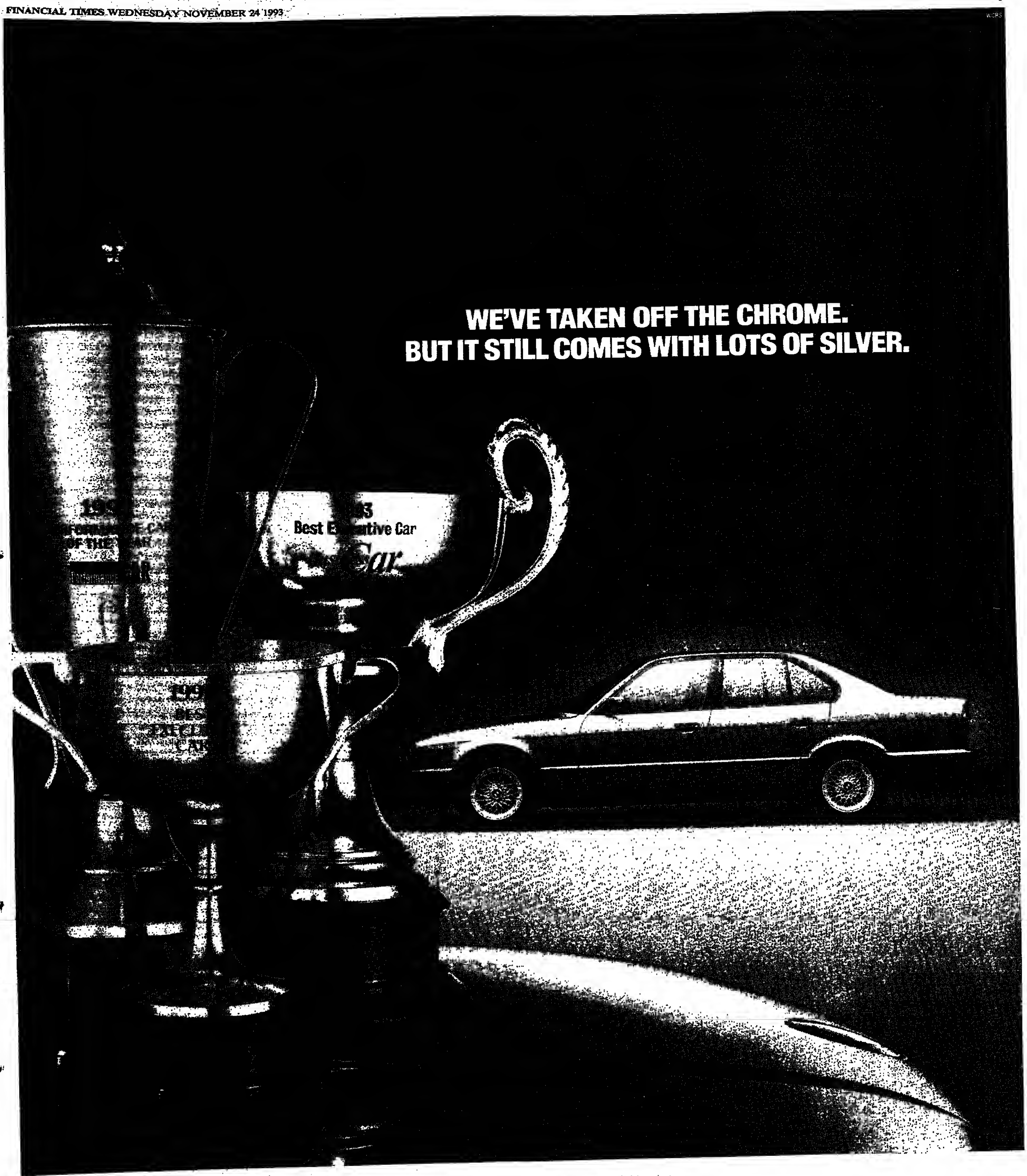
Elliott: now charges loom

Jakarta warned on budget waste

Indonesia, one of the world's biggest borrowers, is wasting 30 per cent of its development budget and may lose more to expensive prestige projects, senior economists said yesterday, Reuter reports from Jakarta. The official Antara news agency and local newspapers quoted them as telling a conference in Surabaya that corruption and inefficiency were eating into state budgets and tying the economy to foreign aid.

Charity pledge to help Burundi

A British charity yesterday pledged £100,000 towards the cost of civilian mediation to restore stability in Burundi, Reuter reports from London. Actionaid, which has been working for 17 years in Burundi, hoped its offer would spur governments into action following a coup attempt there last month.



After the 5 Series won 23 motoring awards worldwide, what do you think BMW did?

They set about making their cars even better.

For 1994 they included a driver airbag and dechromed the window surrounds.

And, for good measure, they added a 3 year dealer warranty.

So surely, with these improvements they could never be accused of resting on their laurels.

Please send me details on BMW 5 Series ☐ BMW Select Finance ☐
To: BMW Information Service, P.O. Box 161, Croydon CR9 1OB or Freephone 0800 325600. Indemnities may be required.

(Mr, Mrs, Miss etc.) Initials Surname

Address

Town/County Postcode Telephone

Present car Year of reg. Age if under 18

THE ULTIMATE DRIVING MACHINE

THE BMW 5 SERIES RANGE FROM £17,530 (518i) TO £51,450 (M5). PRICE INCLUDES VAT AND 3 YEAR BMW DEALER WARRANTY BUT EXCLUDES ROAD FUND LICENCE AND AT AN ESTIMATED COST OF £470 DELIVERY AND NUMBER PLATES. PRICES CORRECT AT TIME OF GOING TO PRESS.

Congress in deadlock on gun curbs

By Jurek Martin in Washington

A chaotic conclusion to the congressional session found the US legislature yesterday still deadlocked over the emotional issue of handgun control, while handing President Bill Clinton provisional victories on several other issues.

The House narrowly voted down the bipartisan Penny-Kasich bill, which would have forced $103bn (£69.1bn) in extra spending cuts over the next five years, and passed the president's more modest $37bn alternative. But the closeness of the first vote, 219-213, suggests budget-trimming has not lost steam and the proposed balanced budget amendment could pass next year.

The House also finally approved a campaign finance reform bill intended, mostly through voluntary compliance, to cut the cost of elections. Substantial differences, however, remain with the Senate version and the debate will be carried over into the session starting in January, with Mr Clinton urging, as he has done all year, a successful resolution.

But both chambers finally agreed on a measure extending unemployment benefits by 13 weeks to those who have used up their standard six months of eligibility. This now awaits the president's signature.

The continued stalemate over handgun control dwarfed all other issues. In the small hours of the morning, Republicans in the Senate refused to accept yet another version of the Brady bill designed to impose a five-day waiting period on handgun purchasers.

Last week it had passed both chambers in slightly differing forms and the House late on Monday night accepted the compromise version produced by a joint conference committee. This includes a five-year life for the bill, whereas the Republicans want it cut to four, as in the Senate bill.

The Republican filibuster so enraged Senator George Mitchell, the Democratic leader, that he threatened to call the Senate back to Washington next week and to keep it in session until the bill was passed. Senator Bob Dole, the Republican leader, refused to let the bill come up without a roll call vote, knowing full well that many Senators have already left town for the holidays.

Mr Clinton, however, was guardedly confident that a deal could be cut before the day was out. Last weekend an earlier Republican filibuster was broken after the party's senators were deluged with telephone calls demanding the passage of the bill.

The extent of public pressure for tighter gun control was also evident to the announcement by Winchester, the firearms manufacturer, that it was withdrawing from public sale one of its most destructive bullets in order to protect the good name of the company. The Black Talon, it said, would henceforth only be made available for purchase by the police and military.

This is the cartridge, able to pierce bullet-proof vests and expandable on impact, that had attracted the particular attention of Senator Daniel Patrick Moynihan last month. He proposed a punitive 10,000 per cent sales tax increase on it.

Dominican Republic debt cut plan agreed

By Stephen Fidler, Latin America Editor

The Dominican Republic's bank creditors have committed themselves to an agreement that will cut the country's bank debt in half. The accord requires approval by the country's congress. If this is forthcoming next month, the agreement could be completed by February, said Mr David Hilton of the Bank of Nova Scotia, which heads the country's bank advisory committee.

Banks were offered the choice of exchanging every dollar of debt either for 25 cents in cash in a buyback, for concessional 30-year bonds carrying a 35 per cent discount to face value, or for bonds to reduce interest payments. The accord covers $775m (£520m) of debt and $265m of interest arrears.

The government insisted the banks' choices should in total reduce debt 50 per cent, and that has now been achieved. Some 35 per cent of the debt will be submitted for cash, and the rest will be exchanged for discount bonds. The discount bonds, paying interest at 13/16 point over Libor, will carry collateral guaranteeing repayment of principal and 12 months of interest.

Some six to 10 banks have not yet committed themselves to the agreement, but the number is not sufficient to hold up the accord, Mr Hilton said.

US plans to unite bank watchdogs

By George Graham in Washington

The US Treasury yesterday outlined plans to consolidate the four federal bank supervisory agencies into a single Federal Banking Commission.

Mr Lloyd Bentsen, the Treasury secretary, said the proposal would carry out the administration's mandate to make the economy function more smoothly by "eliminating a confusing and duplicative regulatory structure to improve efficiency and decision-making".

Writing in the Washington Post, Mr Bentsen said the overlapping supervisory responsibilities of the Federal Reserve, the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision were decades out of date.

"It is a drag on the economy, a headache for our financial services industry and a source of friction within our government. It must be replaced," he said.

While the Comptroller regulates banks with a national charter, banks with a state charter are monitored by their local supervisory agencies. But state chartered banks are also supervised by the Fed if they belong to the Federal Reserve System, and by the FDIC if they do not. Bank holding companies and foreign banks also come under the Fed, while savings and loan institutions are mostly covered by the Office of Thrift Supervision.

Mr Bentsen pointed out that a bank holding company today might well include among its affiliates a state-chartered bank, a nationally chartered bank and a thrift, and come under all four federal agencies.

He said the Fed should retain its responsibilities for monetary policy and the payments system, while the FDIC should stay a deposit insurer.

The Treasury has separately thrown its weight behind proposals to allow banks to open branches outside their home states, but this measure was blocked in the Senate last week when Republicans boycotted a meeting called to draft the legislation.

● Congress has finally passed a measure to provide funds for the Resolution Trust Corporation to enable it to complete the mopping up of bankrupt savings and loan institutions.

A vote in the House of Representatives early yesterday morning provided $18.3bn (£12.2m) for the S&L bailout. For more than a year the RTC has been unable to shut down failed S&Ls because of Congress's reluctance to approve necessary funding.

Heart in Europe, hopes on Asia

Warren Christopher tells **Jurek Martin** why priorities are changing

It would be wrong to infer that Mr Warren Christopher is perturbed by suggestions that western Europe fears that the US has somehow "gone Asian". But the secretary of state does acknowledge the "perception", induced by disagreements over Bosnia, that there have been transatlantic strains over the last 10 months that need to be set right.

So, on Monday afternoon he invited a small group of European journalists in for consecutive chats, the first such he has given with clear intent since taking over at Foggy Bottom.

Wearing his trademark dark pinstriped suit, he is, as ever, supremely courteous and if there are additional lines on his 68-year-old face there were so many to begin with that none can be said to denote particular fatigue. Sitting cross-legged on an upright chair in the Monroe Room, he fiddles a little with his black pen but only once, when asked a question about Italy, does he fleetingly refer to the briefing file on his lap.

The message – that Europe "remains at the centre of our concerns" – is hardly new, though the need to repeat it is intriguing. Succinct opening remarks point out that of the six underlying principles of US foreign policy, the first three – global growth, Russia and European security – directly involve the continent, as does the sixth, a whole host of other "global issues".

President Bill Clinton, Mr Christopher notes, is going to Europe three times next year – for the Nato summit in Brussels and on to Moscow in January, for the 50th anniversary of the Normandy landings in June and for the Group of Seven industrial nations' summit in Naples in July. A fourth trip is also understood to be under consideration.

Mr Christopher says it has been "unfortunate that attempts to find a solution to the as yet insoluble Bosnian problem have contributed to the perception" of disagreement. But, he insists, the US "will carry out our obligations and take into account our vital interests".

In the Balkans, these are "containing the conflict" so it does not spread south to Kosovo and Macedonia; humanitarian relief; and, if necessary and Congress is willing, sending a large US military contingent to help enforce any "consensually agreed" settlement.

There are many in Washington, including perhaps the secretary of state himself, who believe Congress will never give such approval if asked. All he will say is "we do not feel that we have sufficient national interest in order to put the 100,000 troops into Bosnia that we believe would be necessary to compel a settlement between the parties."

But he was unrepentant about an earlier comment that he thought Washington had been too eurocentric for too long. This was "a recognition of the reality of the cold war period". Equally, "the primacy of opportunity for the US to Asia is a statement of fact."

This was of minimal concern to him since US international relations are "not a zero sum game", in which the focus on Asia inevitably meant a "derogation" from Europe. It was only the accident of the G7 calendar that sent Mr Clinton to a summit in Tokyo and then to South Korea and perfectly logical for him to follow this up with the Apec session in Seattle last weekend and meetings this week with President Kim Young-sam of South Korea and President Fidel Ramos of the Philippines.

But there was nothing wrong now with transatlantic communications at the highest level, he said. "If you look ahead to one month from now, as Gatt comes to the end game, or eight months from now, after the G7, you'll see there has been much communication between us."

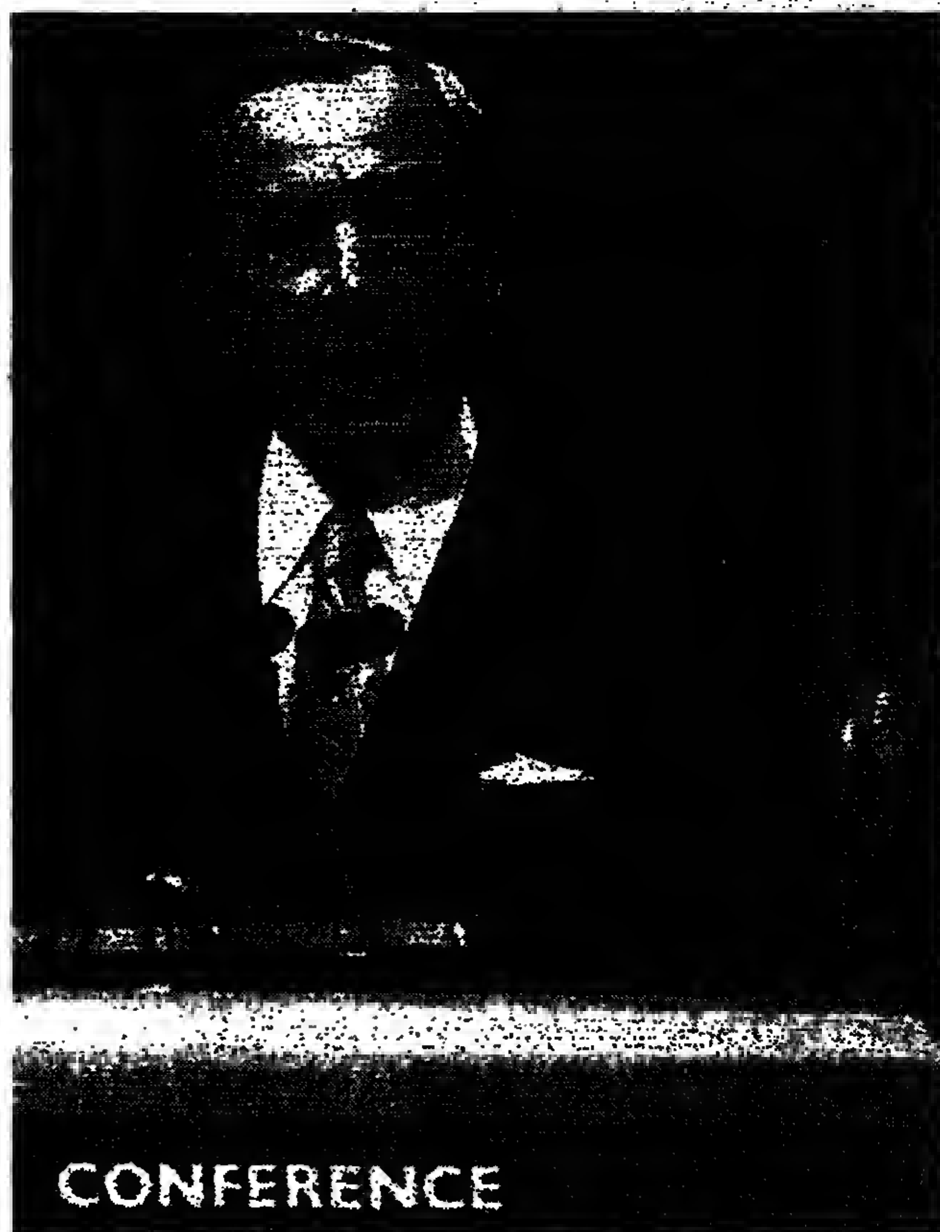
On Nato, for which he is full of praise, he makes the diplomatic point that the US thinks it important to "reach out" to the countries of eastern Europe and to "incorporate them into Nato's structures in such a way that it is healthy for them and healthy for Nato itself". Above all, Bosnia should not be construed as "a failure of Nato".

He also brushes off questions about tension between the US and the UN leadership of its secretary general, Mr Boutros Boutros Ghali, only acknowledging "differences of emphasis" over Somalia in the now-abandoned pursuit of faction leader General Mohammed Farah Aideed.

The UN "faces a tremendous agenda with limited resources", and "we remain highly supportive" of the institution.

Individual European countries also get high praise, particularly Germany. Disagreement over trading with Iran should not disguise "the overriding reality of friendship and support" between Washington and Bonn. Relations with France were "so much broader" than disagreements over trade, though he adds bluntly: "Blair House [the EC-US agricultural pact] will not be renegotiated." The politics of Italy are for the Italians themselves to decide. In the aggregate a whole host of political, economic, investment and cultural connections are too deep to be dismissed.

Mr Christopher crosses the Atlantic himself next week, en route to the Middle East. He will attend the Conference on Security and Co-operation in Europe meeting in Rome and European Union, Nato and Gatt talks in Brussels. He does not expect the sort of trouble he encountered last spring on his ill-fated Bosnian mission.



Warren Christopher: seeking to get the right balance in a post-cold war world Associated Press

Clinton offers to hold talks with N Korea

By George Graham in Washington

President Bill Clinton yesterday offered North Korea the prospect of talks on "a thorough, broad approach to the issues that divide us".

"If it abandons its nuclear option and honours its non-proliferation commitments the door will be open on a wide range of issues," Mr Clinton said after discussing this strategy with South Korea's President Kim Young-sam at the White House.

While Mr Clinton reaffirmed the US's "unyielding commitment to South Korea's security", the approach he outlined offers a somewhat more placatory approach to Pyongyang.

Mr Kim said Mr Clinton had promised him that there would be no withdrawal of US troops from South Korea.

Mr Clinton's new approach resembles in some respects the Vietnam "road map" adopted by the Bush administration in which co-operation by the Vietnamese government in bringing peace to Cambodia and in resolving questions about missing US servicemen was tied to a phased reduction in US restrictions on economic and diplomatic links.

Besides offering specific short-term concessions, such as the cancellation of this year's Team Spirit joint US-South Korean military exercise, in exchange for North Korea's agreement to allow international inspection of its nuclear programme, the US is expected to indicate the longer-term gains North Korea could expect if it continued to co-operate with efforts to halt any military nuclear programme it might have.

Foreign policy experts outside the Clinton administration acknowledge the need to negotiate with North Korea, if only to build support among other countries for tougher measures should the need arise.

They warn, however, about the danger of making concessions just to persuade North Korea to remain a member of the Nuclear Non-Proliferation Treaty, while doing nothing about suspect sites believed to be part of a secret nuclear programme.

Growth dive adds to political jitters in Venezuela

Joseph Mann on stagnation in one of the world's fastest-growing economies – and in an election year

Venezuela's economy, which between 1990 and 1992 posted one of the world's highest growth rates, has gone into a steep decline in this, an election, year.

A combination of weak international oil prices, political upheaval and the uncertainties posed by national elections on December 5 slowed real gross domestic product growth during the first half of the year to a negative 2.3 per cent compared with the first half of 1992.

Some government officials are predicting full-year 1993 growth of about 1 per cent – compared with 7.3 per cent in 1992 and 10.4 per cent in 1991. This is well below official estimates of 2-4 per cent growth made a few months ago, and 5 per cent at the beginning of the year.

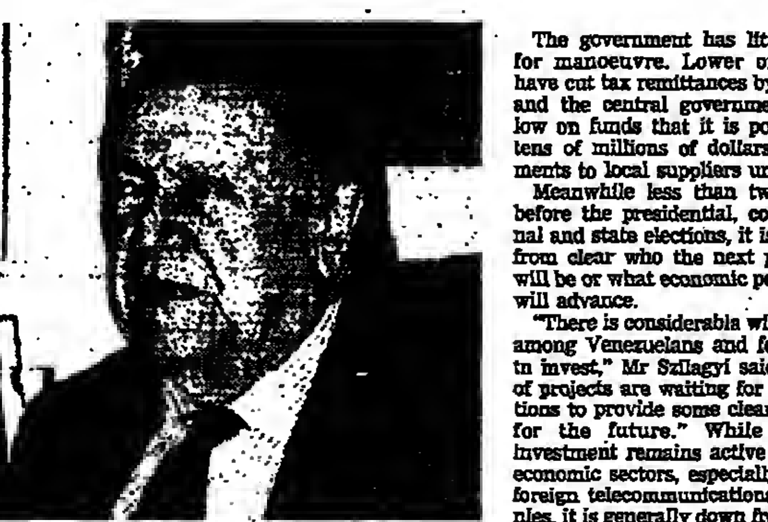
Even this may be optimistic. Many businessmen in Venezuela are expecting worse results. "To be sincere, I don't think we'll see any positive growth this year at all," said Mr Rafael Alfonzo Hernandez, executive director of Alfonzo Rivas, a large processed food company, and a spokesman for an important industrial association.

"Investors are on stand-by," commented Mr Alejandro Szilagyi, a Venezuelan business consultant who works with domestic and international companies. "At best, we're stagnating this year, and we could have negative growth."

Part of this is because petroleum exports, which account for most of Venezuela's foreign income, have been hurt by weak international oil prices. Political turmoil during the year – including the removal of an elected president, a wave of unexplained bombings and concern over a possible military uprising – has damaged investor confidence in many sectors.

On the positive side, Venezuela has been able to maintain strong international reserves as the central bank kept interest rates high. Reserves at the end of October were $12.6bn, down 2.9 per cent from year-end 1992 and equivalent to just over a year of imports.

Unemployment has also fallen this year – to 6.9 per cent at end-June from 8.4 per cent a year earlier, but that is likely to worsen next year as many companies – including the state oil company PDVSA – reduce personnel.



Caldera: leads the pack but ambiguous on economic policy

Inflation though could rise to 40 per cent or more this year, in part because of a 10 per cent value added tax that came into effect on October 1 as part of the government's effort to close its fiscal deficit. Even before the tax took effect, many retailers raised prices sharply.

The government has little room for manoeuvre. Lower oil prices have cut tax remittances by PDVSA and the central government is so low on funds that it is postponing tens of millions of dollars in payments to local suppliers until 1994.

Meanwhile less than two weeks before the presidential, congressional and state elections, it is still far from clear who the next president will be or what economic policies he will advance.

"There is considerable willingness among Venezuelans and foreigners to invest," Mr Szilagyi said. "A lot of projects are waiting for the elections to provide some clear policies for the future." While private investment remains active in some economic sectors, especially among foreign telecommunications companies, it is generally down from 1992.

The four leading presidential candidates have said they would deal with key problems such as the government's fiscal deficit, inflation, high real interest rates, external debt, falling public services and demands for higher wages by public sector employees. So far they have been short on specific policies.

Former president Rafael Caldera, 77, leads the pack of 18 candidates in virtually all public opinion polls. He has expressed strong opposition to free-market reforms initiated nearly five years ago. However, in meetings with international investors outside Venezuela, the ex-president's advisers have suggested that a Caldera government might maintain some reforms and would encourage private investment.

The other main candidates, in order of public support reflected in the polls, are Mr Oswaldo Alvarez Paz, 50, a former state governor who is standing for the Christian Democrat Copei party; Mr Andres Velasquez, 40, a labour leader and state governor who represents the leftist Radical Cause party; and Mr Claudio Fermin, 43, a former mayor of Caracas who is the candidate for the Democratic Action party.

Both Mr Alvarez and Mr Fermin argue that market reforms, among others, must be continued in Venezuela. Mr Velasquez offers a mix of pro- and anti-reform policies.

Pollsters say that a large number of potential voters (perhaps as many as 35-40 per cent) are still undecided or are "soft", that is, they could change their preference by election day.

The last days of the campaign have been complicated by renewed rumours of a coup d'état, and by a military investigation of the secretary general of Radical Cause. The military have accused Mr Pablo Medina, a member of Congress and long-time leader of the party, of receiving a cache of automatic weapons stolen from a Venezuelan army base last year, and want to court martial him as an accessory to military rebellion. Mr Medina and his party deny the charges, saying the armed forces and others are trying to damage his party's image soon before the election.

Radical Cause, whose members include former Marxists, is expected to obtain a significant share of protest votes next month and to win an important block of congressional seats. In Venezuela's confused political atmosphere, it is not clear whether the charges will hurt the party or pull in more votes.

NEWS IN BRIEF

Siemens and ABB expand eastward

Siemsns and Asea Brown Boveri, two of Europe's biggest engineering groups, have announced joint ventures in Russia and China respectively as they seek to expand their presence in fast-growing markets, writes Andrew Baxter.

Siemens is taking a 31 per cent stake in Moscow-based interautomatika, which will handle the engineering, sales and marksting of its instrumentation and control (I&C) equipment for fossil-fuslled power stations.

ABB has reached agreement with Beijing-based Beijing Rectifier Plant to make digital converter equipment for electrical drives. Ths venture will be majority owned and managed by ABB.

The importance of the Asian market was underlined yesterday by GEC Alsthom, the Anglo-Frsnch sngineering group, which has won a turnkey contract of about £255m to build a 2x100MW coal-fired station for PLN, the Indonesian power generator.

It has also signed a $200m (£134m) contract with Power Grid Corporation of India to supply a turnkey high voltage direct current convertor station to link the western and southern regions of the country's electricity networks.

● Rolls-Royce and Westinghouse have announced the first order for their new power generation package based on the industrial version of the Trent aero-engine. Polsky Energy has signed a letter of intent for the package for use in Quebec, Canada.

VW and Thyssen join Vietnam queue

Volkswagen and steelmaker Thyssen of Germany have made a joint proposal to make cars and components in Vietnam, Reuter reports from Hanoi.

Vietnam's heavy industry minister, Mr Tran Lum, said Renault, Peugeot, Mercedes-Benz, Chrysler, General Motors, Toyota and Mitsubishi had also shown interest. South Korea's Daewoo is also understood to have made proposals.

The attractions of Vietnam are government policy increasingly geared to foreign investment, cheap labour and a market of 70m people currently moving from the bicycle to the motorcycle as their main means of transport, with car ownership growing.

Vietnam has three motor plants – a Japanese-South Korean company assembling four-wheel-drive cars, a joint venture between Mekong and Fiat's Iveco making trucks and buses, and a Philippine-Vietnamese concern making Mazdas and Kias.

Mr Martin Posth, VW board member responsible for Asia, said the plan was to start by manufacturing about 2,000 semi-knockdown cars a year, then start construction of complete knockdown cars. Local content would increase and workers would get more advanced training.

Kuala Lumpur tower contracts awarded

Japanese and Sonth Korean companies have won the main share of multi-million-dollar contracts to build two 88-storey towers in the centre of Kuala Lumpur, Kieran Cooke reports.

The Kuala Lumpur City Centre Company, in charge of building what will be two of the world's tallest structures, awarded separate contracts, each worth M$467m ($183m), to groups led by the Hazama Corporation of Japan and Samsung of South Korea.

Otis of ths US has been awarded s M$140m sub-contract to supply 29 double-deck lifts and nine single-deck lifts for each of the towers.

US industry fears missing out on deal

Kantor-Brittan talks go into second day

By Nancy Dunne in Washington

US industry lobbyists waited anxiously yesterday as talks on the Uruguay Round between Mr Mickey Kantor, US trade representative, and Sir Leon Brittan, the EU trade commissioner, went into a second day.

All that has emerged so far is an enigmatic announcement that Sir Leon would be meeting President Bill Clinton for a 10-minute "photo opportunity", and a polite disagreement between the two sides over whether Mr Clinton had invited Sir Leon or vice versa.

Indications are that on agriculture the US might consider attaching a side letter to the controvsrsial Blair House accord to "clarify" the deal in s way that might satisfy French objections. There was also the possibility of technical changes in the process of converting quotas to tariffs which might help ease the stalemate.

Mr Harry Freeman, head of the MTN Coalition, which aims to lobby a Gatt deal through Congress, said: "With a Gatt deal creeping up fast, industry groups are getting quite fearful of being left out at the end of the day."

Unlike the North American Free Trade Agreement, which most of industry supported, this one will produce winners and losers. There are domestic groups which want stronger anti-dumping laws, and exporters who want them weakened. The retailers' interests are at odds with the textile and apparel industries. Those which want tariffs phased out may find their products taken off the table.

One of the most prominent lobbyists, Mr Jack Valenti, a former presidential speechwriter and long-time head of the Motion Picture Association, was demanding an audio-visual agreement which would free new television technologies from EU restrictions and guarantee equal treatment for foreign and domestic films and television programming.

Mr Valenti hinted at a willingness to compromise on the EU's current voluntary quota system for television programmes. An EC-proposed standstill on protection might be acceptable, he said, "because only the French, Italians and Spanish have any quotas, and only four or five other countries have them in the rest of the world."

However, still angry about French rejection of a US cartoon network, Mr Valenti insisted that no limits would be acceptable on fibre optic satellite-delivered programmes and other forms of pay television.

Another issue on the agenda, market access, was getting close scrutiny from the Semiconductor Industry Association, which has long sought an elimination of electronics tariffs against EU opposition. The SIA saw its hand strengthened last week when 10 of the 14 Asian-Pacific countries, including South Korea, agreed at last week's Seattle summit to support duty-free status for electronics providing there were "comparsble commitments from our trading partners".

The SIA has the support of its European counterpart for "improvements" in the current negotiating draft on intellectual property rights.

Portugal prepares telecoms sell-off

By Peter Wise in Lisbon and Andrew Adonis in London

The Portuguese government appears ready to decide in the next few weeks on merging the country's three telecommunications operators into one, leading to partial privatisation.

The sale, provisionally scheduled for some time between December next year and May 1995, would increase to three the number of telecommunications privatisations likely in Europe in the next 18 months. Denmark and the Netherlands plan to float part of their state operators next year.

Portugal is likely to seek bids for a "strategic partner" for the unified company.

Its telecommunications are currently managed by Telefones de Lisboa e Porto (TLP), which covers communications in Lisbon and Oporto, Telecom Portugal, which handles calls in the rest of the country and connections with Europe, and Marconi Compania Portuguesa de Radio, which deals with intercontinental telecommunications. The state owns 100 per cent of the first two and 51 per cent of the third.

As a prelude to the rationalisation, the government earlier this year formed Communicacoes Nacionais (CN), a holding company to manage the state's interests in the three companies. CN will first merge TLP and Telecom and then begin negotiations with the private shareholders of Marconi.

Initially, privatisation is expected to be limited to a stake of 30 per cent or less. "We will hope for as much national investment as possible," said one source, "but we will not put up any barriers to international participation in the privatisation operation."

In a second stage, it is expected that up to 49 per cent will be privatised.

Although Portugal has barely 30 exchange lines per 100 people, financial necessity is not believed to be a driving force. Officials claim that Portugal's telecommunication companies will be "fully capable" of generating the Es150bn-Es200bn ($862m-$1.15bn) a year needed to bring the Portuguese network up to the standard of those in the more advanced European Union states.

Satellite operator's sell-off will make a world of difference

By Daniel Green

The international commercial satellite industry is on the verge of a transformation, thanks to a plan by Inmarsat to turn itself from a quasi-public sector satellite operator into a private-sector company.

Inmarsat has assets of $1bn (£600m) and annual sales of almost $400m, which have been rising since the 1980s at more than 20 per cent a year. If it succeeds in re-inventing itself it would be a powerful rival in the private sector to the likes of Motorola, the US electronics company, in the race to create a global mobile satellite network for portable telephones by the end of the century.

The plan, revealed last month, is that the organisation's 70-plus partners – the world's telecommunications companies and authorities including British Telecom and France Telecom – should be able to trade their holdings.

It sounds simple, but it would mean s profound change in the way the organisation works.

Inmarsat is the Cinderella of the satellite and telecommunications industries. It was created by inter-governmental treaty in 1979 to plug a gap in the fast-growing world of satellite telecoms: the provision of telecommunications services to ships, especially those from poorer countries which could not afford to offer even emergency satellite links.

> Inmarsat has assets of $1bn and annual sales of almost $400m, rising since the 1980s at over 20 per cent a year.

This public-service duty has since been eclipsed by the explosive growth in mobile telecommunications. Inmarsat's sales have almost quadrupled in the space of five years as it has expanded into portable satellite communications for emergency services, the media and airlines.

Inmarsat's partners believe there is huge value locked up in their holdings, "substantially more than the [$1bn] asset value", says Mr Bruce Crockett, chairman of Comsat, the publicly quoted US company, which is the biggest stakeholder in Inmarsat with 25 per cent.

There is also a pressing commercial need for Inmarsat to distance itself from its partners. Many of them are state-owned, non-profit organisations, and private-sector companies are trying to exclude Inmarsat from sectors in which they compete.

Inmarsat's assailants, led by Motorola, have s point. Thanks to the inter-governmental treaty and the links with its partners, Inmarsat has tax and regulatory advantages over the privste sector.

In the past this has mattered little because only Inmsrsat used satellites snd offered a single global network.

But Inmarsat's monopoly is being challenged by Motorola and other large US electronics companies. They all want to create their own global mobile telecommunicstions services, based on satellites, and they argue that Inmarsat in its present form would be an unfair competitor.

Inmarsat recognises the threat to its operations, and is prepared to rise to the challenge. Its director-general, Mr Olof Lundberg, says: "If we are going to join the commercial world, we need a new set of attitudes. We need to remake ourselves. Several groups are now preparing to tackle us head on."

But time is short. Motorola's consortium has already raised $100m in cash and another $700m in pledges as the first stage in financing its mobile ssatellite telephone project, called Iridium.

Inmarsat will propose what will in effect be its privatisation in the first quarter of 1994 and, if all goes to plan, begin the process in the final quarter.

Others may follow: Inmarsat has a sister organisation, Washington-based Intelsat, and a pan-European cousin, Eutelsat. Their structures are much the same as Inmarsat's.

Intelsat and Eutelsat do not face the same pressing need to change. Nevertheless, they will be closely watching Inmarsat's progress.

If they decide to follow, the world of telecommunications will be changed beyond recognition as buyers of telecommunications services find a new group of suppliers knocking at their doors.

Greek shipping line orders ferries

By Kerin Hope in Athens

Minoan Lines, Greece's largest passenger shipping operator, has placed a Dr38bn ($152m) order for two ferries with Fosen MEK Verksteer, the Norwegian shipbuilders.

Minoan, based on Crete, wants more capacity for larger vehicles on its main route between Greece and Italy and to cut the journey tims to less than 24 hours.

The Adriatic crossing has become the main link with western Europe for both Greek exporters and tourists travelling by road since the war in Bosnia blocked the overland ronts through the former Yugoslavia.

Minoan Lines said the 31,000-ton ferries would carry 200 camper vans and 150 trucks each, together with 1,500 passengers. The first will be delivered in spring 1995.

The company operates 10 ferries in the Adriatic and eastern Mediterranean and carries over 1m passengers a year.

Cost of house loan lowest for 15 years

By Andrew Taylor, Construction Correspondent

The cost of monthly mortgage repayments, on loans to buy a bome, in relation to average earnings has fallen to the lowest level for 15 years following yesterday's interest rate cuts.

Nationwide, Britain's second largest building society (home loans and investment institution) reduced its mortgage rate by 0.25 per cent to 7.74 per cent.

The last time the mortgage rate was this low was in 1968.

As a result, monthly mortgage repayments as a proportion of first time buyers' average montbly income is expected to fall to below 13 per cent for the first time since 1978 – wben repayments accounted for under 12 per cent of average earnings.

At the peak in 1990, first time buyers were spending more than a quarter of their monthly income on mortgage repayments, according to figures compiled by the Council for Mortgage Lenders and the Environment Department.

The figures take account of bouse prices, which bave fallen sharply In recent years, as well as movements in salaries, interest rates and mortgage tax relief.

Yet, in spite of the decline in prices and mortgage interest rates, the UK housing market remains at a low ebb.

Sales this year are likely to have risen by about only 5 per cent from last year's low of 1.14bn, according to figures based on legal contracts for bome purchase published by the Inland Revenue. This compares with about 1.5bn transactions in average year and a peak of 2bn sales in 1988.

Average house prices which have fallen by up to 30 per cent in East Anglia and southern England since tbe late 1980s are forecast to have recovered by about only 2 per cent this year by Halifax, Britain's biggest building society.

Fear of unemployment and concern about the state of the economy is contlnuing to Inhibit potential bouse buyers and depress prices, say mortgage lenders, bouse builders and estate agents.

The rate of general inflation, wbicb progressively reduced tbe real cost of mortgage repayments while increasing tbe value of borrowers homes, has fallen since the 1970s and 1980s reducing the financial advantages of home ownership.

A policeman leads a witness away from a garage near Manchester after two Department of Transport investigators were shot dead by a man with a shotgun. The officials were thought to be investigating part of Britain's £6m a year trade in false vehicle test certificates. Motor traders offered a £25,000 reward for information. Stolen 'MoT' certificates can fetch up to £60 each

GM unit wins Europe's top outsourcing deal

By John Willman, Public Policy Editor

The contract for operating the UK government's Inland Revenue computers that process data for income tax and corporation tax has been awarded to EDS-Scicon, a subsidiary of General Motors.

This is the first time that a government has contracted out the data processing of confidential tax information, though EDS already processes sensitive data for the US Defence department.

The company will be required to carry out all processing of confidential information in the UK. Access to the information will not be allowed from outside the UK.

The contract is said by the Inland Revenue to be worth "well over £1bn over the next 10 years", which will make it Europe's largest data processing outsourcing deal.

The decision to award the contract to a US company was criticised last night by the IRSF tax staff union. Mr Clive Brooke, union general secretary, said it was regrettable that the staff had not been allowed to make a bid to provide the service.

Subject to the successful conclusion of discussions over the details of the contract, some 2,000 government administration staff in the Revenue's Information Technology Office will begin the transfer to EDS-Scicon in April 1994.

The transfer is expected to be covered by the Transfer of Undertakings (Protection of Employment) 1982 regulations. Government service terms and conditions will therefore be preserved for staff who transfer.

The Revenue expects that a "strategic partnership" with EDS will make it easier to upgrade the department's computer operations using new systems development techniques.

This will make it easier to change the tax system over the next decade with the arrival of self-assessment, assessment of all tax on a current year basis and the abolition of separate tax schedules.

The department is reorganising its operations to improve customer service in part by making a single tax office responsible for each taxpayer. Bulk clerical and processing work will be concentrated in large regional back offices.

● EDS has also won a five-year contract to provide IT services for the new parking enforcement regime in London, under which the capital's local boroughs are responsible for enforcing restrictions and collecting fines from motorists.

Tax fears are 'all in the mind'

By Clive Cookson, Science Editor

Psychologists yesterday added their voice to the clamour of pre-budget advice to the chancellor. Tbe psychological Impact on consumers of an extra penny or two on income tax wonld be acceptable, they said, bnt an extension of VAT would not.

In its first ever budget briefing, the British Psychological Society said the chancellor of the excbeqner's priority in next Tuesday's Budget shonld be to bolster consumer confidence, so that the UK continned to pull out of recession, while at the same time tackling the government's $50bn budget deficit.

"People would be very worried about any zero-rated goods getting VAT because they are uncertain about how indirect taxation affects tbem," said Professor Cary Cooper of tbe Unlversity of Manchester.

"Bnt most people realise there's a big budget deficit and they would accept one or two pence on income tax because tbey understand better bow direct taxation affects them – it would give them a better sense of control." The BPS said City opinion would be more receptive to an extension of VAT to some items.

Guerrilla war over heart of the party

Kevin Brown previews a vital vote for the '22

Deep in the bowels of Westminster, a guerrilla war is raging. The outcome will sbow how far the Conservative party has recovered from the deep divisions of the Maastricht debate. Some Tory MPs say it could even determine tbe future of Mr John Major's government.

The conflict has little to do with the legislative programme or the debate over the contents of next week's Budget. It is far more important tban that.

Tbe battleground is the annual elections, due tomorrow for the executive of the 1922 committee, the backbench (rank-and-file) organisation which represents all Conservative MPs who bave failed to find, or have lost, a place in the government.

The battle lines are clear cut. On the right stands tbe Thatcberite 92 group which provides a ideological home for the party's Eurosceptics, hard-line free marketeers and social conservatives.

On the left stands the newly formed Mainstream Group which comprises a mixture of social liberals, economic interventionists and enthusiasts for the European Union.

Mainstream regards itself as a "loyalist" group, seeking to ease pressure on tbe prime minister from the sometimes caustic 92 Group.

Traditionally, tbe 18 strong executive of the committee bas sought to act as a conduit to Downing Street and the prime minister for the views of both wings of the parliamentary party. But the the traditional role required a fragile balance between left and right.

The balance began to break down In 1989, when Sir Anthony Meyer, an MP on the party's left, stood against Mrs Margaret Thatcher for the leadership of the party. Sir Anthony lost heavily. But the election precipitated a more serious challenge from Mr Michael Heseltine, which led to Mrs Thatcher's replacement by Mr Major.

The rigbt, which bad dominated the party throughout the 1980s, extracted its revenge in last year's elections for the 1922 committee executive, when candidates backed by the 92 Group swept the board.

But leftwingers are crying foul. Tbey say the rigbt cheated by enlisting candidates before the 1992 election and used its power on the committee to misrepresent the balance of opinion in tbe parliamentary party.

This year, the left is better organised. The long-standing Lollard group bas joined hands with the pro-Brussels Positive Europe group to field a single Mainstream slate.

On paper, tbe Mainstream group has abont 100 votes, compared to about 90 for the 92 Group. Observers say tbe ideologically focused 92 Gronp can probably rely on most of its members to follow voting instructions. But the less cohesive Mainstream group has found it difficult even to produce an agreed slate.

On the otber band, Mainstream can count on the votes of many of tbe 60 or so parliamentary private secretaries - unpaid assistants to ministers - wbo are entitled to vote.

Ministers deny rightwing claims that Downing Street has organised a discreet campaign to corrall the PPS vote. But there is little doubt tbat most of the PPSs will vote for candidates regarded as loyal to the government.

A victory for the Mainstream group would be a significant boost for Mr Major. But it migbt not end the simmering Tory civil war, especially if the result is not clear cut.

"We have never been more divided in our history than we are at the moment. We are trying desperately to get over it," said one promiment backbencher. But if the right loses and turns into a sort of detached rump, they will not only split the party, they will destroy it."

Bankers face class in ethics

By Alison Smith

Banking ethics ehould be taught as a separate subject in professional training courses, to counter the competitive and commercial pressures facing bankers, Mr Laurence Shurman, the banking ombudsman, said yesterday.

Mr Shurman highlighted the pressure to "oversell" insurance products, because the commission was very profitable. This was, he said, only one example of the increasingly competitive environment which led him to believe that banking ethics should be taught as a formal subject in order to underpin the code of banking practice. The code is currently being reviewed.

But Mr Shurman said also that the numbers of new complaints against banks in the year to September showed signs of levelling out.

Unionist blow to joint peace plan

David Owen in parliament on the Ulster debate

Mr James Molyneaux last night dealt a serious blow to the Major-Reynolds peace initiative, warning that efforts to persuade Dublin to drop its territorial claim over Northern Ireland were probably doomed.

But the Ulster Unionist party leader coupled this with a surprisingly upbeat assessment of the prospects for agreeing a form of devolved government for the province.

Downing Street welcomed Mr Molyneaux's support for efforts to agree new government structures for the province but would make no direct comment on his criticism of the Major-Reynolds initiative. It said its discussions with the Irish government would continue.

Mr Molyneaux's etrongly worded Commons statement came as Mr John Major – who yesterday discussed the situation in the province with cabinet colleagues – signalled his determination to test the IRA's willingness to agree to end its use of violence for good.

"There do seem to be some suggestions that the IRA may be thinking about an end to violence," the prime minister told MPs, in his first public acknowledgment of the possibility of such a change in the terrorists' thinking.

Intelligeoce reports seen by Mr Major – who will today meet Rev Ian Paisley, leader of the bardline Democratic Unionist party – bave supported the view that Mr Gerry Adams, leadar of Sinn Féin, the political wing of the IRA, may be ready to call a halt to the violence. This has in turn raised hopes that the IRA's traditional Cbristmas ceasefire might offer an opportunity for a more durable cessation.

Mr Molyneaux told MPs that the Britisb and Irisb governments appeared to have made "no progress whatever" in their talks on Dublin's territorial claim over the province.

He said there was no reason to question the jndgment of Mr Albert Reynolds, the Irisb prime minister, that be would be defeated if be submitted this claim to a referendum in the republic.

"Nor should anyooe assume that the approval of his electorate would be given in return for a British surrender to the demands of Mr Adams."

He went on: "The disastrous juxtaposition of discussions on political progress witb the price demanded by the IRA in return for a balt to murder means in effect that Her Majesty's government is being required to do a deal, not with Mr Reynolds, but with Mr Adams."

"No amount of diplomatic verbiage can conceal that uncomfortable fact that Dublin is merely the condult."

Plans to open up milk industry could bring 'chaos'

By Deborah Hargreaves

Plans for opening up Britain's milk industry are unworkable and proposals for a new pricing structure could result in "chaos," the Dairy Trade Federation said yesterday.

Mr Jim McMichael-Phillips, chairman, representing Britain'a dairy companies, said the proposals for freeing up the milk industry would inhibit the development of competition and lead to higher prices.

The government plans to open up the milk market in April following the abolition of the Milk Marketing Board – its statutory purchasing scheme. The consultation period over proposals by the board to re-organise itself as Milk Marque, a voluntary farmers' co-operative, ends on Friday.

Mr McMicbael-Phillips said the government sbould appoint an independent body to monitor changes in the milk market for a two or three-year transitional period. He believes that Milk Marque will exploit its dominant position in the market to raise prices and give poorer service to buyers.

The price auction proposed by Milk Marque for setting prices in the new free market gives it far too mucb discretion, the federation said.

Britain in brief

Simpler deal sought on BCCI debts

The liquidators to the Bank of Credit and Commerce International are to push for a far simpler agreement on behalf of creditors with the government of Abn Dhabi, the majority shareholder in the bank.

In a statement issued yesterday, the liqnidators from accountants Tonche Ross in London said tbey would be pursning a number of "parallel strategies" following rejection of their plans by the Luxembourg courts.

It said: "In particular, the llquidators intend to seek to re-establish a dialogue with Abn Dhabi with a view to determining whether any new plan can be developed for the benefit of BCCI creditors."

Fund-raisers return to No10

The crisis in the Conservative party's finances has forced Mr John Major to drop a self-imposed ban on entertaining elite groups of past and potential donors at 10 Downing Street.

After a warning from party treasurers that it has virtually no money to fight next year's European and local elections, Mr Major is bosting a series of dinners at Downing Street for wealthy corporate and individual contributors.

Taylor quits England job

Six days after England beet San Marino 7-1, but still failed to reach the World Cup Finals in the US, manager Graham Taylor resigned.

Britisb bookmakers installed Howard Wilkinson, wbo took Leeds to the leagne title two seasons ago, as the clear favonrite for the full-time joh. Among other contenders are Kevin Keegan, a former England star who is now in charge at Newcastle, Aston Villa's Ron Atkinsoo, Gerry Francis of Queens Park Rangers and Steve Coppell, former manager of Crystal Palace.

Birmingham hits back

Birmingham City Council, wriggling under the charge that it has spent too much on international facilities and not enough on education, counter-attacked with tha publication of a calculation tbat tbese facilities support 16,800 jobs in the West Midlands.

The calculation is contained in tha summary of a report, commissioned from KPMG Peat Marwick, accountants, which considers the local and regional economic impact of the National Exhibition Centre, the International Convention Centre and the National Indoor Arena.

M-ways plan to cost much more

A government programme to widen 600 miles of Britain's motorways is expected to cost nearly twice the original £3.4bn estimate and will not be able to tackle the most congested motorways first. Financial and environmental constraints will mean that some stretches cannot be designed to meet forecast traffic demand and some projects will have an expected life of just 15 years instead of the normal 40 years.

These are among the findings of a highly critical report by the National Audit Office, wbich reviews government spending programmes.

Regulator to probe net book

A surprise decision to re-examine the net hook agreement, which governs the retail price of most books sold in the UK, was announced yesterday by the Office of Fair Trading.

Sir Brian Carsberg, director general of fair trading, said that it was more than 30 years since it was ruled tbat the agreement did not operate against tbe public interest.

Because of cbanges in tbe economics of publishing in that time Sir Bryan said: "We must now consider the possibility that the court would reacb a differeot judgment today on tbe effects of the egreement." The NBA allows publishers to decide to offer their books for sale at a minimum net price.

Schools ahead of colleges

Schools still appear to deliver a bigher standard in academic exams tbat sixth form colleges, according to government A-level figures.

Bnt the complete data on all tbe A-level exams taken in the state sector, available for the first time, shows that deprived areas are capable of strong academic performance. Sbeffield produced the strongest results in the conntry.

Jeans jobs for Ulster

American jeans maker Lee is to recruit an extra 100 workers in Northern Ireland as part of a £4m expansion plan, it was announced today.

The company, wbicb employs 473 people in the province, makes jeans under the Lee, Wrangler and Maverick labels for the European market at plants in Londonderry and Newtownards, Co Down.

The investment, which is hacked by tba government's Industrial Development Board, was "further recognition by a major US corporation of the competitive advantages of Northern Ireland as a cost-effective manufacturing location", said Ulster industry minister Robert Atkins.

BT operators in strike ballot

BT's 9,078 operators working in telephone exchanges begin a postal ballot today on whether or not to snpport industrial action egainst the company's plans to rednce and withdraw allowances for night and weekend working, holidays and international work. Voting is dne to close on December 15.

Safety record best ever

The number of deaths from accidents at work in the UK is tbe lowest on record the Healtb and Safety Executive reported. Tbe commisson's annual report said 430 people had died in workplaces in the year to March 1993 compared with 473 in the previous 12 months.

The rate of fatal accideots within the UK has also fallen for the third year running. It is expected to be 1.3 per 100,000 employees this year, less than a quarter of that at the beginning of the 1960s and half that of the early 1970s.

Sabotage is threat to data

Dellberate sebotage by disgruntled employees is the biggest threat to a company's information systems and the hardest to combat, according to e survey sponsored by the Department of Trade and Indnstry and International Computers.

The survey of 24 of the UK's largest companies revealed that a quarter have had their deta security breacbed bnt only one in 10 have comprehensive insurance cover. Computer fraud, hacking and other security breaches are estimeted to cost UK bnsiness more than £1bn e year.

Waste levy can be 'justified'

A new levy which would sharply raise the cost of putting waste in landfill – licensed rubbisb dumps – could be justified on environmental grounds, a report commissioned by the government suggested. A subsidy for incinerating waste might also be justified, the report says and some incineration schemes can be used to generate energy, reducing the role of coal-burning power stations which pollute the atmosphere.

ITV ownership code imminent

The ITV companies will find out at 8.30am today how the government proposes to change the ownership rules governing the ITV companies.

In an echo of the announcement of new franchises by the Independent Talevision Commission the government will make its intentions clear by fax. The liberalisatioo will allow some of the large ITV companies to take eacb other over and could lead to the lanncbing of immediate bid battles. Carlton Commnnications, bolders of the London weekday licence is expected to launched a bid for Central, the second largest company In whlch it has a 20 per cent stake. Granada wlll move against eitber Central or London Weekend In wblcb it already holds 20 per cent.

to proceed.
In the Ukraine, unable and Electricité de France, told the

BUSINESS AND THE ENVIRONMENT

Crops under doctor's orders

A single body to monitor the use of agricultural pesticides, which would save millions of pounds spent on cleaning up drinking water, should be set up in the UK, according to a study by Newcastle University published last week.*

The study advocates the introduction of a prescription service for crops with the chemicals doled out by independent crop doctors, rather than representatives of agro-chemical companies who could tend to encourage greater use of pesticides.

This would entail a completely regulated market in pesticides similar to the National Health Service. It could prove cheaper in the long run than paying for the clean-up of drinking water, thereby reducing water bills.

Water companies estimate it will cost £800m in equipment and £80m a year in running costs to treat polluted drinking water and bring it up to EU standards. But the study points out that a national ban on the herbicide Isoproturon could greatly improve the water at a cost of only £28m.

The monitoring of pesticide use could come under the auspices of the proposed new Environmental Protection Agency, the study suggests. But it would need additional information about the use of chemicals on the land if it is to do its job properly. The study found the monitoring of agricultural pesticides is "grossly inadequate," and regulation has been geared more to the needs of agriculture than the environment.

The principle of polluters paying for environmental damage is not being applied to pesticides since water companies are removing chemicals from the water supply and passing the bill on to consumers. The report suggests imposing a levy on agro-chemicals with the highest tax applied to the pesticides that appear in greatest concentrations.

Deborah Hargreaves

**Water Pollution from Agricultural Pesticides, Centre for Rural Economy, Department of Agricultural Economics and Food Marketing, Newcastle-Upon-Tyne, NE1 7RU, £10*

As Brussels prepares to fix European fish quotas, **Alison Maitland** looks at how long North Sea stocks will last

Hook, line and sinker

Safely home in the port of Lowestoft, on the east coast of England, the crew of the UK fisheries research vessel Cirolana is recovering from a month-long mission to investigate the state of fish stocks in the treacherous North Sea.

"We were out in all that wind and rain and there were all sorts of ships going down around us," says Barry Chapman, Cirolana's bearded captain, with just a hint of seadog swagger. "We stayed till the last bitter minute."

The 10 scientists on board hava been tracking the serious depletion in many species of fish, notably cod. Their findings, together with those from scientists of other European countries, will feed into data to be used by fisheries ministers in Brussels next month to set next year's quotas for the whole of the European Union.

The changeable climate that forced Cirolana into port a day ahead of schedule is also thought to be responsible for the enormous fluctuations in fish numbers from one year to the next, which scientists find particularly difficult to explain.

"Predicting fish stocks is like predicting the weather, only worse," says John Shepherd, deputy director of the government's fisheries research directorate at Lowestoft.

The inexact nature of the science irritates those on the receiving end – the fishermen – who see their livelihoods being squeezed by quotas and other limits on how often and how much they can fish.

British fishermen are currently locked in a bitter dispute with the government over its plans to restrict the number of days they can spend at sea. A High Court ruling is awaited on an application by the National Federation of Fishermen's Organisations to have the restrictions quashed.

The policy is part of the government's drive to cut UK fleet capacity by 19 per cent by the end of 1996 in a European-wide attempt to curb over-fishing.

The situation for cod is so serious that the European Commission has just set up a task force to examine how to protect the dwindling North Sea stock.

Nobody wants to see cod disappear, as it almost has off Newfoundland. A moratorium on fishing there has led to 20,000 fishermen and processors being laid off.

"Everybody agrees that we ought to be very worried about the state of the cod stock," says Shepherd. "It may be in terminal decline."

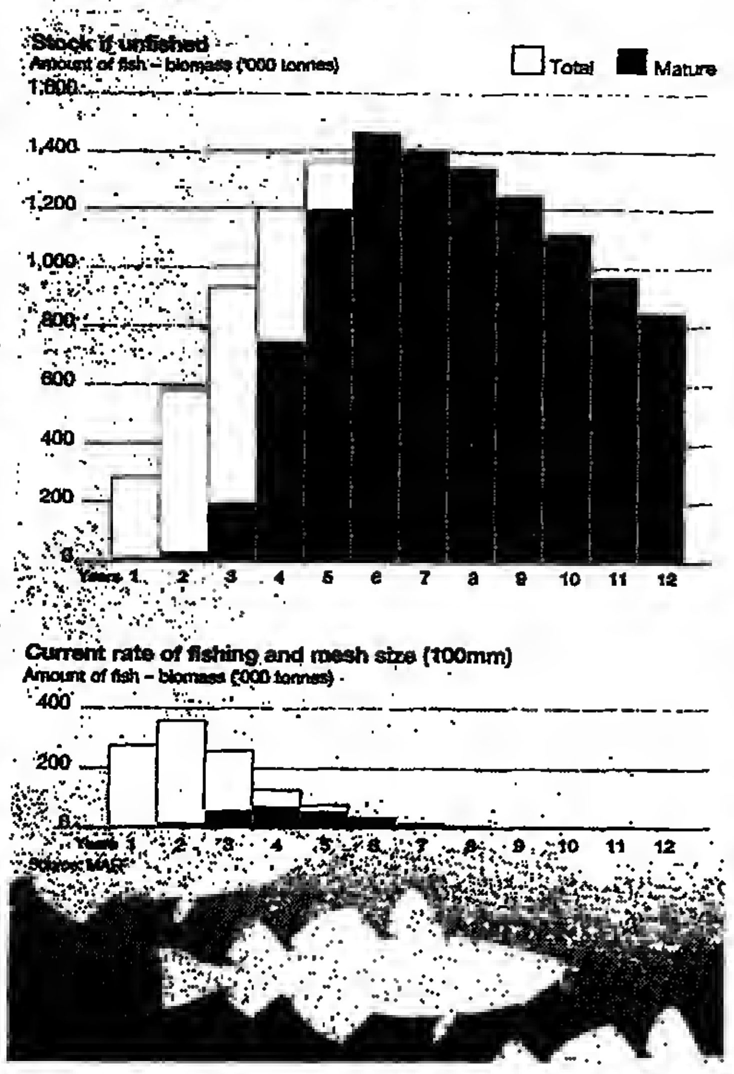
The spawning stock of cod – fish that are mature enough to breed – has fallen to about 50,000 tonnes, the lowest level on record, through a combination of over-fishing and natural causes.

Most cod do not mature until they are about four years old. But in the North Sea only a very small percentage survives to spawn and landings are dominated by two-year-old immature fish.

The North Sea fishing surveys carried out by Lowestoft scientists are complemented by researchers from Denmark, France, Germany, the Netherlands and Norway, who work together in the International Council for the Exploration of the Sea.

They determine the age of the fish they catch by their length or by examining their scales or the tiny stones in their ears, which carry growth rings similar to trees.

Dwindling stock of North Sea cod



Cod is only the most striking example of over-exploitation. All but two species of fish – the low-value blue whiting and horse mackerel – are either fully exploited or over-exploited in the waters around Britain. That means the same number or fewer fish would be caught even if fishing increased.

Cod levels are also very low in the Irish Sea and in Icelandic waters. But stocks of north-east Arctic cod in the Barents sea have returned to much healthier levels thanks to drastic cuts a couple of years ago in the quotas shared by Russian and Norwegian fishermen. These accelerated a cyclical recovery in the stocks. "It's a nice example of how well-timed management action can help," says Shepherd.

Some stocks, such as western mackerel in the North Sea, never recover from over-fishing. Others make sudden comebacks, such as North Sea haddock, catching even the scientists by surprise.

After three very poor breeding years, which took quotas to an all-time low, the haddock has unexpectedly enjoyed three consecutive good years. The scientist acts *in loco parentis* for the fish and always has to be cautious, says Shepherd.

"When you're seeing the lowest stock size on record and it's been there for three years, no responsible person could do other than warn that the stock was in a critical state and likely to get worse."

The best way of conserving fish is the subject of fierce debate. Fishermen argue that "technical" conservation measures, such as increasing minimum mesh sizes to allow smaller fish to escape, would offer an alternative to direct restrictions on their activities.

The problem with larger mesh sizes is that they would not help the cod, the biggest of the main commercially exploited species in the North Sea, says Shepherd. "For North Sea cod, the increases in mesh size required to enable restrictions on catch and effort to be lifted are such that this is hardly a practical proposition."

Ten years of quotas under the Common Fisheries Policy have failed to solve the problem of over-fishing, partly because of evasion. That is where enforceable measures such as decommissioning of vessels and restrictions on fishing times come in.

"Searching for a conservation measure which is painless [for fishermen] is a waste of time," says Shepherd. "There is none."

The problem would be eased by a shift in consumer preference away from white fish. Cultivation of fish and shellfish may also emerge as a partial solution in the long term. The UK has been cultivating lobsters and Norway is experimenting with the farming of halibut, turbot and even cod.

Making a splash in Japan

Support for Greenpeace is growing, writes **Emiko Terazono**

"Is the Sea of Japan turning into a nuclear waste dump?" screamed the headline in a Japanese national daily after Russia dumped its nuclear waste there last month. The disposal of 900cu m of low-level coolant and cleaning water from Russia's nuclear submarines into the sea provoked widespread anger.

However, at the same time it earned respect for Greenpeace, the international environmental pressure group, which had uncovered the dumping.

Until the dumping, many Japanese were wary about Greenpeace's activities. "The incident helped ordinary Japanese understand that Greenpeace wasn't just a bunch of hysterical people bashing Japan about whales," says Naoki Obara, director of Greenpeace Japan.

The aggressive tactics in Greenpeace's appeals over environmental issues, especially over Japan's whaling, have alarmed ordinary Japanese, who usually disapprove of direct confrontation. A collision last year between Japan's plutonium-carrying vessel and a Greenpeace ship caused apprehension among many people who thought this was "going too far".

As a result, Greenpeace has managed to attract only 800 members within the country. Since the Russian episode, however, interest in the group's activities has heightened. Greenpeace's information-gathering methods have been praised as far more advanced than those of the foreign ministry.

Accounts of how the group discovered Russian vessel TNT-27 has been told and retold in the media. Greenpeace says it predicted Russia's dumping from a Russian government report which states that it would have to continue marine disposal of nuclear waste until 1997. On October 7, the Greenpeace ship left northern Japan and waited until the Russian vessel appeared on October 16.

The Japanese are especially sensitive to water purity because the eating of fish, raw or cooked, is an important part of national culture. The dumping of nuclear waste in the country's main fishing area revived memories of the Minamata poisoning case, which began in the late 1950s. (Chisso, a chemicals manufacturer, disposed of its mercury refuse into the bay of Minamata, on the southern island of Kyushu, contaminating fish and poisoning the local population.)

The widespread outcry over Russia's nuclear dumping has forced the Japanese government to change its stance on the disposal of nuclear waste and to support a proposal that would ban ocean dumping.

Between 1955 and 1969, Japan dumped 1,650 drums of low-level radioactive waste into the Pacific Ocean. Although the government has refrained from dumping low-level waste at sea since 1969, it has remained ambivalent over the matter, hoping to keep ocean dumping as an option for disposing of waste from its nuclear power stations.

However, while Japan supported calls for a complete ban on dumping of low-level waste at the meeting earlier this month of the London Dumping Convention, Japan continues to release waste water from its nuclear power plants at sea. Japan disposes of at least 1,020ton tonnes of coolant from its nuclear energy plants per year, although the radiation levels are said to be lower than international standards.

Meanwhile, public awareness over environmental issues remains low. Obara says people reacted because the Russian dumping was in their "backyard", but issues such as the destruction of rainforests in southeast Asia for wood exports to Japan have remained untouched. And many Japanese believe western criticism of whaling is another form of Japan bashing.

Obara blames the low awareness on the lack of school education on environmental matters.

The media is reluctant to cover such issues, especially if there is a large Japanese company involved. "Japan has to realise its responsibilities as a leading industrialised country," he says.

PEOPLE

Taylor leaves National Express

Keith Taylor resigned yesterday as managing director of National Express, Britain's largest scheduled coach operator, after only a year in the job.

The company, which obtained a London Stock Market listing last December, said the reason for Taylor's departure was a difference in management style and minor, internal policy differences.

Taylor (right), 45, joined National Express after an early career spent in marketing and product development with Forte and GrandMet.

It appears that Taylor's approach to business, honed in large companies, did not match the more entrepreneurial style of the National Express Board.

"We are a very small management team and inevitably

someone who has worked in very large companies probably finds the transition rather difficult," said Adam Mills, deputy chief executive. "But this is not a one or two-man band. We are very Cadbury."

Mills acknowledged that Taylor's rapid departure might raise questions about the company's recruitment procedures but said it had employed "a distinguished headhunter and had gone through all the due process".

Mills and Ray McEnhill, chief executive, acquired National Express with the help of venture capital finance after an earlier management and employee buy-out ran into difficulties. They both had a background in the bus industry.

Taylor was on a one-year rolling contract so his redundancy payment will not be "a headline figure", said Mills. Taylor is to stay on to provide advice until March 31 but the company expects to have a new managing director in place by then.

Stapleton to chair Hundred Group

Nigel Stapleton, 47, has been appointed chairman of the Hundred Group of finance directors from January 1.

Stapleton was recently appointed chief financial officer of Reed Elsevier, and has been the chairman of the technical committee of the Hundred Group for three years.

His new appointment follows the announcement earlier this month that Michael Lawrence, finance director of Prudential and the current chairman of the Hundred Group, is to become chief executive of the London Stock Exchange.

From its creation in the early 1970s, the Hundred Group has grown into an important forum on a wide range of issues of importance to finance directors – notably accounting and auditing matters.

It has been influential over the past few months in delaying and bringing about more co-ordination in the implementation of the Cadbury code of corporate governance.

Stapleton worked at Unilever, becoming vice president, finance, before moving to Reed International in 1986 as finance director and also became chief financial officer following the merger with Elsevier earlier this year. He is a non-executive director of Allied-Lyons.

His successor as technical committee chairman will ha Christopher Pearce, finance director of Rentokil Group.

■ Tha retirement of Alan Orsich, 60, as an executive director of STANDARD CHARTERED is a further sign of the tremendous change which has taken place in the boardroom of one Britain's biggest overseas banks.

Orsich, who joined Standard Bank in 1950, was one of the last of the career bankers who had worked their way to the top. After working in East Africa, he became chief dealer of Standard Bank in 1969 and spent the rest of his career on the Treasury side of the bank. During Standard Chartered's more difficult periods, Orsich's side of the business continued to generate good profits and he survived many of the management reshuffles which ended the career of other colleagues.

Orsich's departure means that David Moir is the only executive director on the Standard Chartered board who has worked for the group for longer than five years. He joined in 1958. Orsich's responsibilities for treasury operations have been taken over by John McFarlane, the former chief executiva of Citibank in the UK, who joined last June.

High Gosforth restructuring on course

The High Gosforth Park Company, the plc which owns Newcastle Racecourse, has restructured its board to lay more emphasis on racing expertise.

Captain the Hon Nicholas Beaumont, clerk of the course and secretary at Ascot Racecourse, has been appointed chairman designate of High Gosforth Park; he will succeed Roy Baker, former chairman of National Tyre Services, in early 1995. In the meantime Beaumont has become a non-executive director.

The Captain's nephew, the Hon Wentworth Beaumont, a member of the Jockey Club and a steward st Newcastle, who also serves on panels at Carlisle, Ripon, York, Newmarket and Ascot, has joined the High Gosforth Park board.

Other new board members are David Stephenson, formerly managing director of Nawcastle Breweries, and James Marris, recently retired regional chairman of British Gas Northern; Sir Alick Rankin, chairman of Scottish and Newcastle and Ken Bell, chairman of Bellway, have retired.

The company, whose course offers the only Grade One racing between York and Ayr, is fighting s protracted planning battle to ensure its future by selling some of its Green Belt land for housing and commercial development.

The board restructuring is intended to help carry through the upgrading. "We must be teed up and ready for the off," says managing director and clerk of the course David Parmley.

Marie-Louise Rossi, 37, is to become chief executive of the London Insurance and Reinsurance Market Association, which represents 120 non-marine and reinsurance companies in the London market.

Rossi (above), who replaces Bill Braid, worked for 14 years in the insurance broking industry with both Hogg Gronp and Sedgwick before joining Tillinghast, the management consultants. Over the past few months she has been working with Tim Congdon on a Lloyd's corporate capital project for another consultancy, De Lisle Jessup Scott.

Braid is to take up the post of finance and administration director of the London Processing Centre, a joint-venture between Lirma and the Institute of London Underwriters. Lirma provides centralised accounting and administrative services. Last year net premiums of £2.6bn and claims of £3bn were processed through its offices.

■ Bain Clarkson Financial Services, a subsidiary of Bain Clarkson insurance broker and part of Inchcape, has announced two new appointments. Ben Carroll is to take over as new chief executive, and Elaine Baker will become corporate development director. Both newcomers were formerly with Sedgwick Noble Lowndes and will join Bain Clarkson early next year. Carroll was formerly managing director of personal financial services and Baker on the board as research director.

■ Rosemary Dulwich, Peter Robinson and George Pritchard have been appointed directors of BRADSTOCK Blunt (Northern), and Nigel Hayden and Peter Waterfield have been appointed directors of Bradstock Blunt (North West).

■ Michael Allen, a former md of Midland Life, has been appointed assistant general manager, finance, at FRIENDS PROVIDENT.

The demise of the Alcazar airline deal provides a cautionary tale for those following the cross-border merger trail, say **Hugh Carnegy** and **Ian Rodger**

Clipped wings of ambition

Alcazar, the cynics always said, was far too ambitious to succeed. On Sunday the cynics were proved right.

After a year of painstaking negotiations, entailing costs in management time and lawyers' fees which can only be guessed at, the attempt by four European airlines to forge what would have been the continent's most ambitious cross-border enterprise collapsed when they failed to agree on which US carrier should become Alcazar's American partner.

With hindsight, it is easy to judge that the idea of melding Austrian, Danish, Dutch, Norwegian, Swedish and Swiss interests into one unified airline was as hopeless as the name given to the project was grandiose. After all, Alcazar, a four-towered Moorish fortress built to keep predators at bay, had no obvious association with the cultures of the protagonists.

But even if the final breakdown was not a great surprise, the four airlines did come tantalisingly close to pulling off a deal, establishing along the way a fund of knowledge and experience that could well be useful to others who follow the cross-border merger trail.

Perhaps the most striking feature of the Alcazar project was the constant acknowledgement by the four airlines - Austrian Airlines, KLM Royal Dutch Airlines, Scandinavian Airlines System (SAS) and Swissair - that what they were attempting was, indeed, extremely complicated.

The four proclaimed their vision of an alliance strong enough to compete with British Airways, Lufthansa and Air France, the three European giants. But from the moment the negotiations, begun in the autumn of 1992, were made public this February, they tempered their ambitions with sober warnings of the hurdles to be overcome.

These ranged from the intangible issue of how to marry four corporate cultures, through the associated problem of how to square the need for a single multinational management structure and flight network with the rigidly bilateral nature of airline route agreements.

The airlines also feared that opponents, both inside and outside their ranks, could appeal effectively to the strong emotional attachment people in every country feel towards their national airline.

When the four chief executives launched informal talks in late 1992, the initial objective was not just to set down what the advantages of an alliance would be, but also to identify the areas that could be "deal breakers".

It was immediately clear, for example, that logic dictated there should be one headquarters, located in one of the six home countries. Could the five that "lost" the HQ be reconciled to the decision?

Other thorny questions were the relative stakes of the companies in Alcazar and the question of the US partner.

By January, the chief executives had reached a sufficient "level of comfort" to feel that they could proceed with more detailed negotiations. It was informally agreed, for example, that the three big airlines would have equal 30 per cent shares in the new group, regardless of significant differences in their actual asset values. They felt this was the only way to avoid constant niggling over the share-out of management posts.

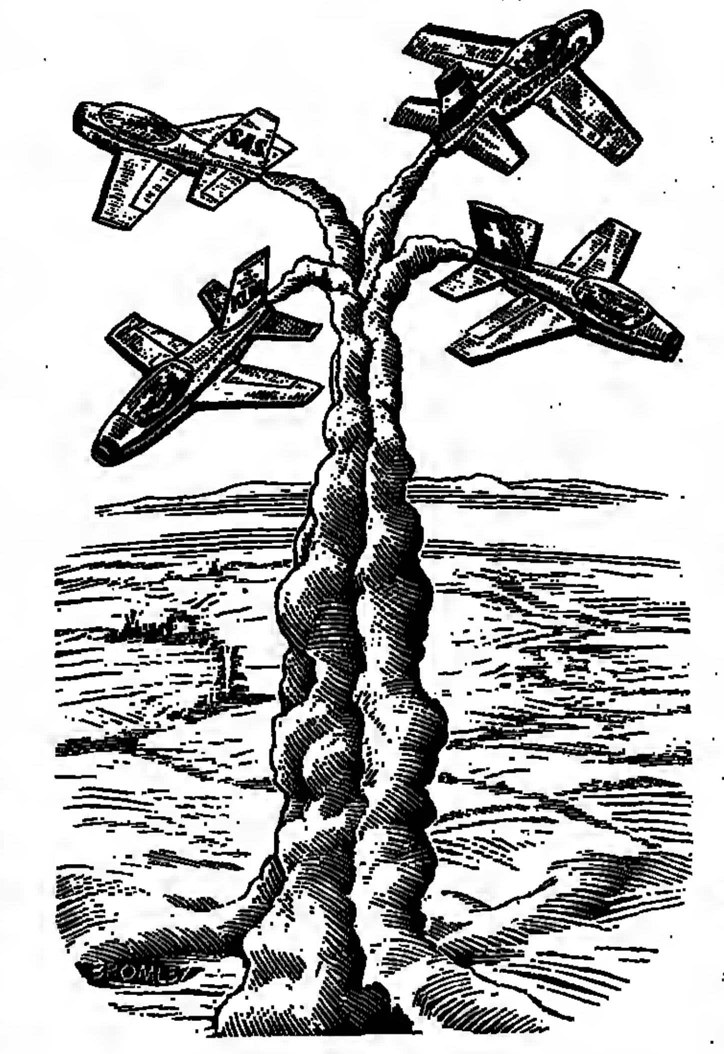
According to Swissair, it was also understood that Delta Air Lines would be the US partner. At the time, Northwest, KLM's partner, looked to be at death's door.

No less than 17 committees, or work teams, were then set up with representatives of each airline meeting once a week, usually at weekends. Each airline had its own steering committee to co-ordinate internally their conduct of the talks. The work teams also reported to an Alcazar steering committee which in turn reported to the chief executives. The work was done in English.

Most of the 17 work teams were concerned with technical airline matters – passenger systems, cargo systems, fleet maintainance and the like. But three key committees thrashed out corporate structure, "air political" issues and balancing the value of the participants' shares in Alcazar.

The results of these studies were extremely encouraging. The route networks fit together well, the marketing philosophies were similar and the prospects for cost savings were impressive.

Sufficient progress was made so that in April the managements of the four airlines went to their shareholders for approval to proceed to signing a loose Memorandum of Understanding (MOU), which would be followed by a formal negotiation of a final Alcazar deal. All but the three core



committees and a work team on communications were disbanded.

But now the problems everyone had been so careful to warn of began to arise in earnest. Opponents of the deal, sensing that it was nearing the decision point, suddenly emerged, rousing public anxiety and forcing governments in Switzerland and Austria in particular to demand reviews.

This meant the signing of the MOU had to be postponed until after the summer holidays. In the meantime, however, the lawyers kept working. Initially, the intention was that the MOU would be fairly vague, merely binding the partners to the Alcazar path. It would not necessarily resolve all the "deal breaker" issues.

However, by September, when the companies finally had their shareholder approvals, the lawyers presented them with a very detailed MOU. The chief executives then realised that they now had to move more quickly to resolve the deal breakers.

For one thing, it had become clear that the original intention to form a joint management company under which the four airlines preserved their separate corporate and tax structures, at least in the early years, was no longer adequate.

While this step-by-step plan would have diffused domestic objections to the project and avoided problems with national and international transport laws governing landing rights and other airline issues, it would have run foul of the European Union and US anti-cartel regulations. Alcazar had to show it was to be a genuine integration of the four airlines.

Moreover, by early September, it was clear that Northwest Airlines was recovering smartly from the edge of bankruptcy in June and KLM's attitude to the US partner issue had changed.

By late October, the four had overcome most of the toughest questions. Austrian, SAS and Swissair had accepted that the headquarters would be in Amsterdam and they had agreed a complex formula to compensate Swissair in recognition of its net asset value being greater than its 30 per cent share in Alcazar.

But they could still not resolve the US partner issue. If, indeed, that was the sole issue that broke the Alcazar project, there is a certain irony in it, because it is not an issue arising from the cross-border complexity of the undertaking, rather one of basic competitive strategy.

However, even if this issue had been resolved, it is a fair bet that the project would have hit other tough stumbling blocks.

It will never be known, for example, if governments and other shareholders might have baulked at the last minute. The spectacle of the shareholder revolt against Volvo's proposed merger with France's state-owned Renault provided a tempting model for the six groups of shareholders of the Alcazar companies.

There were also signs of substantial lingering disagreement over the scale and speed of rationalisation, issues that would have been very difficult for a fledgling management group to resolve peacefully.

Agents move into the driving seat

Legislation coming into effect on January 1 will strengthen their position, writes **Stewart Dalby**

Many British companies are waking up to realise that they have precious little time left to reorganise advantageously their agency arrangements in European Union countries.

New legislation comes into effect on January 1 that will generally strengthen the position of agents as opposed to principals (companies). One of the provisions in the new directive stipulates that proper notice should be given to terminate contracts.

At the moment many British concerns have very loose arrangements with their agents.

Mike Reynell is marketing director of Flomerics, a software company specialising in computational fluid dynamics, used for cooling in electronics products.

He says: "It was only when we read reports in the newspapers that we realised we could face difficulties with our agents in Europe. At the moment, the agreements are very informal, based only on a letter. We could have difficulties."

The UK and Ireland will join the rest of the EU in applying far more detailed rules governing companies and their agents. The new rules borrow heavily from legislation in Germany, where agents have been able to use their contracts as security for loans and compensation is available if an agreement is terminated.

The new rules mean that either party must give written notice of not less than one month for the first year, two months after two years and three months for the third and subsequent years if a contract is terminated.

Other rules stipulate that principals will no longer be able to delay paying their agents simply because they have not been paid.

Provided the agent has not breached the terms of his contract, companies become liable to pay compensation to their agent to cover losses and costs resulting from the termination of the contract. Compensation must take into account the commission the agent might have earned and costs and expenses he has not been able to recover.

Rebecca Attree, an international solicitor working in the international department of the London office of Laytons, says:

"The new regulations mean substantial changes to companies' agency arrangements. We are advising our clients to review all current agency arrangements, and establish whether they are actually agency agreements. If they are, the companies should consider the costs and benefits of terminating any existing agreements."

One company concerned about the new arrangements is Hampshire-based Apollo Fire Detectors. Neil Quinn, managing director, says: "We realised there could have been losses involved in termination of contracts when the new rules came in."

The company's answer to the problem was to set up distributorships in most EU markets, which are outside the regulations. In Germany, Apollo set up a subsidiary company.

Flomerics, however, is not keen on the idea of distributors. The company, which was set up in 1989, now has a turnover of £2m, most of which is exported. The largest market is the US, but Europe is growing rapidly.

Reynell says: "Distributors do not really suit us; we are not selling a commodity which can be stored and sold on. We like to know who the end customer is, and we tend to have a few large customers. There are a lot of intellectual property rights wrapped up in our products and we like to keep the customers in view."

While favouring agents, the company does admit to a satisfactory arrangement in one EU country.

Reynell adds: "We will have to change our arrangements – certainly in one EU country and possibly more. I am seeing our lawyers about it imminently."

LEGAL NOTICES

Company No: 1134028
Registered in England and Wales
IN THE MATTER OF
BROOK ELECTRICAL LIMITED
and
IN THE MATTER OF
THE INSOLVENCY ACT 1986

NOTICE IS HEREBY GIVEN pursuant to Section 48(2) Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at the offices of: Coopers & Lybrand, Orchard House, 10 Albion House, Maidstone, Kent ME14 5XG on 7 December 1993 at 10.30 am. [illegible]

Signed
E M Shires
Joint Administrative Receiver
Coopers & Lybrand, Orchard House, 10 Albion Place, Maidstone, Kent ME14 5XG
Dated: 18th November 1993

INSOLVENCY ACT 1986
STANCOMB & KENINGTON AGENCIES LIMITED

NOTICE IS HEREBY GIVEN pursuant to Section 98 of the Insolvency Act 1986 that a meeting of creditors will be held at Insurance Hall, 20 Aldermanbury, London EC2V 7HY on 1 December 1993 at 10.30 am for the purposes mentioned in Section 99 and 100 of the said Act. [illegible]

INSOLVENCY ACT 1986
CSB UNDERWRITING AGENCIES LIMITED

[illegible]

ARTS

Television/Christopher Dunkley

Up with sex, down with violence

Listen to the claims of those busybody organisations which campaign to impose their tastes on everybody else, read the "Shock! Horror!" stories of their finger-wagging allies in the tabloid papers, and you will believe that sex'an'violence on television is, as ever, on the increase. But if you sit down for week after week, year after year and monitor the output, you will find that something *much* more interesting is happening. Far from going up, the incidence of violence has actually gone down since the worst days of the 1970s and early 1980s, yet equally clearly sex is, indeed, on the increase. Hence the wonderful sight last week of the tabloid press up on its hobby horse having a fit of the vapours over the explicit pictures in BBC2's *Buddha Of Suburbia*.

"Shame Of BBC's Porn Play" shrieked the Sun on Wednesday and then, purely in the public interest you understand, and despite its own distaste for such things, it provided photographs of the actresses in the nude. This seems to have struck the Daily Mail as a wizard wheeze because next day it splashed "A full frontal assault" across a double spread, above a story which began "BBC bosses refused to make eleventh-hour cuts to last night's episode of the controversial sex drama *The Buddha Of Suburbia* despite public concern over explicit scenes". Nowhere did it explain how there could have been "public concern" over scenes which the public had not seen. More surprising, however, given the obsession of such newspapers with the supposed need for censorship, is the blindness to the sea change that has occurred in the last 15 years.

If you went into any British television drama department today with a series of *The Sweeney* (or *Starsky And Hutch* for that matter) made in the late 1970s you would be told they were untransmittable because of the violence. The head of drama would freeze-frame the video at the point where six beefy villains in balaclavas, armed with pickaxe handles, were leaping from the back of a Transit van to set about poor old D.I. Regan and his D.S. George Carter. Go away, you would be told, and come back with something more thoughtful: why not swap psychology for violence? Have a look at *Cracker* or *Between The Lines* and see how the old idea of "action" has switched very largely from physical to mental.

Whether this change is a good thing is debatable. Those of us who do not happen to like watching violence will be content, but if my great aunt was alive she would be most upset. She used to sulk through the likes of *Panorama* muttering "What about a nice bit of violence for poor old auntie?" and then, when *Dragnet* or *Big Breadwinner Hog* came on, drum her heels on the floor and giggle. She lived in Purley, read Jeffrey Farnol, and never hurt a fly. Why should such people be forbidden their violent fix? And what about violent young men? Some doctors and criminologists argue that violence on television is cathartic, and serves as a substitute for the real thing: take it away and such delinquents will be more inclined to go out and do it themselves. Perhaps the present increase in reports of violent crime results from the decrease in violence on television?

Of course there *is* still violence on television, from children's animated cartoons to bought-in Hollywood movies (and we shall come back to the question of Hollywood's role). But anyone monitoring the amount and intensity in the broadcaster's own programmes, especially in peak time drama, would have to admit that there has been a significant reduction. What the tabloid press seems to have missed is the simultaneous increase throughout the mass media in references to all things sexual, whether pictorial or verbal. There are many possible reasons, ranging from a continued long-term reaction against Victorian hypocrisy to the supposed needs of the Aids industry.

Since papers such as the *Sun* with its "Page Three girls" have themselves contributed so obviously to this change it seems bizarre that they are blind to it. To a generation which now accepts nudity as readily in television drama as it does on Page Three or in the National Gallery, the "fetch the smelling salts" pose of outrage adopted by the tabloids whenever one of the Regrave women sheds her underwear seems ludicrous. This assertion is based not only upon evidence from my own children and their friends, now in their twenties, but from last week's edition of *Open Space* on BBC2.

Presented by a remarkable woman named Isabel Koprowski, this made a common sense plea for Britain to move further and faster down this road and begin to catch up with our Continental partners. In many people, she pointed out, hostility towards explicitly sexual material arose from the belief that pornography always means violence towards women, a lie repeated endlessly by the busybody organisations and some of their tabloid allies. It is almost entirely untrue of Britain's *soft porn* (the only sort legally available) and very rarely true of the hard porn available across the Channel. This stuff is actually about enjoyment, and, in the print media, more and more the enjoyment of women as well as men these days.

In their own defence the busybodies and tabloids would probably say that a still picture of a naked woman (or man, presumably) was one thing but vigorous rumpy pumpy on the screen in the corner of your living room was something else entirely. It is certainly true that representations of sexual intercourse have now become almost commonplace in British television drama. In the past few weeks we have seen brother-sister incest in some detail in Stephen Poliakoff's *Close My Eyes* on Channel 4. In *Scarlet And Black* we have watched from within several ladies' chambers as Monsieur Sorel's ladder (did he always pack a collapsible model?) whanged against their balconies, a signal at which nighties would slide magically to the floor. Even the ITV soccer drama *All In The Game* has had them playing hide the sausage... though with the woman on top, naturally. In 1993 anything else would be desperately politically incorrect.

What the B & T brigade never seem to ask themselves is whether there might, perhaps, be some point to these scenes other than a desire to outrage them. While watching *The Buddha Of Suburbia* did the oh-so-easily-shocked gentlemen on the tabloids really not notice that the big sex scene was supposed to be comical? That even as the director's wife with the voracious sexual appetite was riding our hero to such a noisy climax, he (underneath, natch) was gazing around in utter boredom? That his girl friend, pleasuring the director on the other side of the room, was also deep in a cocktail party conversation about the ICA? This drama (*final episode* at 9.25 on BBC2 tonight, heaven only knows what sort of a record rating it will get) is a satire about the social *mores* of Londoners in the 1970s. Attitudes to many subjects – Asians, contemporary music, mysticism – have been represented and variously parodied, ridiculed or attacked, and it would be odd, given the time and attention that so many people devote to it, if sex were to be left out.

The trouble with the B & T attacks is that by spreading outrage indiscriminately over anything at all to do with sex, they end up conveying to the impressionable, and especially to those who actually see very little of this sort of material, that there is nothing to choose between, say, the closing sex scene in last week's *Buddha Of Suburbia* and the opening sex scene in the Hollywood movie *Basic Instinct*. Yet the truth is that the television scene was funny and telling whereas the movie scene (with the woman on top, of course, first humping her victim and then slashing him hysterically with a knife) is utterly repellent. So much so that I, a cinema and TV critic for 30 years, turned my face away in shame for the human race.

If we cannot distinguish between these things we are lost.

The spoilt rich kid and the godfather: Gunnel Bohman and John Bröcheler as Amelia and Boccanegra

Opera in Frankfurt/Andrew Clark

A mafiosi 'Boccanegra'

For the first time since the war, Germany's orchestras and opera companies are having to justify their existence – no more so than in Frankfurt. The era of limitless state subsidy has come to an abrupt end. Recession is biting hard, cutbacks are under way. The Frankfurt Opera faces a reduction in subsidy over the next four years from DM66m (£26m) to DM48m (£19m). The number of salaried staff is to be reduced by 22 per cent, and new productions will probably drop from six to three per season. This is a tough prescription for a city which counts itself one of Germany's major musical centres.

The only consolation is that Frankfurt is not alone, and no company is being forced to close. According to the Frankfurt Opera's managing director, Martin Steinhoff, the cuts will fall wherever possible on the administrative rather than artistic side. He says the company is being as pragmatic as possible, but criticises the city government for slashing services for taxpayers, while keeping its own 26,000-strong bureaucracy virtually intact.

None of this affected *Simon Boccanegra*, the first home-grown production since the arrival of Sylvain Cambreling as music director at the start of the season. Musical standards were high, the staging looked expensive. It was a good choice of opera, because *Simon Boccanegra* is little known in Germany.

That did not prevent Matthias Langhoff – a well-established drama producer in Berlin and Paris – from trying to rewrite the story. Verdi's patricians and plebeians became the mafiosi of modern Italy: Renaissance intrigue became today's corruption. The prologue took place on the harbour-front of postwar Genoa, complete with cranes, ships' prows, dockers and prostitutes. Act one opened on a seaside terrace, Amelia making her entrance in a red swimsuit. The Doge's council chamber was transformed into a champagne reception for Boccanegra's business associates. The final act was set in front of a dockside pizzeria.

Some of this made interesting theatre, if only because of the alienating devices incorporated into Jean-Marc Stehlé's semi-realistic stage pictures. But Langhoff's approach never rang true. Verdi's humane Doge emerged as a godfather, devoid of moral authority and corrupted by power. Instead of probing the inner psychology of the characters, Langhoff trivialised them, overloading the stage with cheap and irritating detail, contradicting the music and confusing an already complex plot.

But thanks to Cambreling, the music was never swamped. The shifting moods were precisely characterised, the instrumental colours vividly brought to life. It was good to hear orchestra and chorus in such good shape. John Bröcheler made a tall, handsome Boccanegra; there was nothing particularly Italianate about his singing, except its conviction. Harald Stamm gave a commanding performance as Fiesco, using his big bold voice to tremendous effect. Keith Olsen was the lusty Adorno, Ivan Kusnjer a credibly shifty Paolo. Amelia, portrayed as a spoilt rich kid, was sung by Gunnel Bohman.

Massenet's magical 'Cendrillon'

Richard Fairman hails Robert Carsen's new production for WNO

In Saturday's morning papers it was reported that a competition is to be held for the design of Cardiff's new opera house. What could be more fitting for Welsh National Opera that evening than this enchanting opera on the theme of a dream fulfilled?

After the rediscovery of so many Massenet operas in the 1970s the composer seemed to get forgotten. Perhaps his desire to please was out of tune with the hard-nosed ethics of the next decade. Or, more likely, the new breed of radical producers assumed that his operas had nothing to offer them. How wrong they were. WNO's new production of *Cendrillon* is probing, stylish, up to the minute, and still sends the audience away with stars in the eyes.

The opera is a fairly faithful version of Perrault's fairy-tale *Cinderella*. So captivating is its blend of magic, romance and humour that it seems wicked that British audiences have been denied it for so long. I have seen the opera only twice before and realise in retrospect how crudely those productions upset its delicate balance, hamming its comedy, over-sugaring its sweetness. All it needs is a touch as deft as the composer's own.

In Cardiff the curtain went up on a strikingly simple set (designs by Michael Levine). A log fire burns in a late 19th-century French drawing-room. On the mantelpiece are an elegant gold clock, ready to strike twelve at midnight, and an invitation to the ball. What we do not know at this point is that the producer, Robert Carsen, is going to swivel the room around and send us out through the window into a world of enchantment.

For the time being we are left with the family and servants. Father is a well-meaning man, amusingly played by Donald Maxwell, though his voice does not take too kindly to Massenet's lyrical writing. The stepmother is a snobbish bossy boots, played with devastating wit by Felicity Palmer.

The scene where she enumerates every twig on her family tree, while bathing her aching feet, was killing. There are plenty of good one-liners for her in Jeremy Sams's English translation.

But now Carsen casts his spell of inspiration. As Cinderella goes to sleep in front of the fire, a miniature fairy godmother (Lillian Watson, bright and twinkling, if a touch strident on the *highest notes*) appears at the *window* and turns out to be the stepmother's alter ego – her better half. The attendant fairies are none other than the household servants, tripping along daintily with silver wings sewn on to their uniforms.

Wearing the fairy's blue high heels, Cinders sets off for the ball only to find Prince Charming curled up in her father's favourite armchair. Another right decision: for the first time in my experience these two roles were cast, as the composer always intended, with sopranos, Rebecca Evans as Cinderella and Pamela Helen Stephen as the Prince, each as touching as the other. Their first duet floated as hushed as a kiss on the breeze – only one of many reasons to offer gratitude to the evening's conductor, Patrick Fournillier.

At last Massenet's lovely opera has the staging it deserves: its magic, its humour, its intimacy, all perfectly balanced and with a sprinkling of psychoanalysis light as fairy dust. Any regrets? Only that the ball scene omits the ballet, included by the students at the RNCM in Manchester last year. Everything else is sheer delight. A personal note to the managing director of WNO: can I come straight back for the next performance please?

A co-production with Monte-Carlo, Toulouse, Turin and English National Opera. Performances in Birmingham this week, then touring to Oxford and Bristol

Recital

Sviatoslav Richter

Sviatoslav Richter returned to the Royal Festival Hall on Sunday afternoon. A Richter piano recital is always a special experience, with the rarity of its provenance tinged and heightened by the threat of peril (will he turn up at all? will he cancel at the very last moment?).

On this occasion it was a breathtaking experience: the greatest living pianist encountered at the peak of his powers, delivering Beethoven and Schubert with awesome concentration of fire and ice, imaginative daring and breadth of vision.

Jets of critical superlatives can afford wearisome reading. This time, however, this particular reviewer was left no alternative to spraying out whole streams of them: artistic completeness of the kind demonstrated by Richter's second-half accounts of the Beethoven "Pathetic" Sonata and the Schubert "Wanderer" Fantasia has the power to make one feel one has never really heard either the works or the instrument itself before.

Two summers ago, when he came to Britain for concerts in London and Aldeburgh, the weight of Richter's septuagenarian years and Slav melancholy seemed to press a little harder on the playing than one had imagined they ever could. On Sunday, the cares of age were cast aside. After a first half of Bach – austere yet full of questing turns of phrase and touch, that was like a testing of the waters – he plunged into the second with an urgency all the more exhilarating for being directed entirely inward, to the music's very centre.

The Beethoven was *all* urgency, every rhythmic pattern alert with immediate forcefulness and long-term significance, the slow movement a taut span of bated energy. The timbre and weight of the Yamaha grand, in some respects not unlike that of a "period" piano (but without the limitations of volume and inequalities of registration), was made to seem the sound and substance of Beethovenian argument.

There was no gap, no shortfall between idea and execution; nor – a handful of forgivable, indeed hardly noticeable finger slips apart – was there in the Schubert, one of the mightiest adventures of Romantic keyboard invention here unfolded in all its majesty. After two Grieg encores, each one a time-stopping marvel of fine-grained pianism, the concert was over, and one was left wrung out, uplifted, cherishing its memory.

Max Loppert

INTERNATIONAL ARTS GUIDE

BORDEAUX

Grand-Théâtre Tonight, tomorrow, Fri, Sat: Nederlands Dans Theater in choreographies by Jiri Kylian (5648 5854)
Palais des Sports Tonight, tomorrow: Fabio Luisi conducts Orchestre National Bordeaux Aquitaine in works by Skryabin, Glazunov and Respighi (5648 5854)

COLOGNE

Philharmonie Tonight: Andrei Gavrilov plays Bach. Fri: Chris Barber Jazz and Blues Band. Sat: Matt Haimovitz plays baroque cello concertos with Slovak Chamber Orchestra. Sun morning, next Mon and Tues: Dmitri Kitaenko conducts Gürzenich Orchestra in Shostakovich, Liadov and Stravinsky. Sun evening: Erich Bergel conducts Budapest Symphony Orchestra in Wagner, Vieuxtemps and Brahms, with violin soloist Alyssa Park (0221-2801)
Opernhaus Tonight, Sat: Billy Budd. Fri: L'Italiana in Algeri. Sun: Hansel and Gretel (0221-221 8400)

CANNES

A week-long international dance festival opens tonight at Palais des Festivals with a Ballet du Rhin mixed bill. Tomorrow's programme features Bill T. Jones/Arnie Zane Dance Company. Cullberg Ballet presents Mats Ek's Carmen on Fri, followed by Lucinda Childs Company on Sat, Compagnie Maguy Marin on Sun, Phoenix Dance Company from Leeds on Mon and Compania Nacional de Danza from Madrid next Tues (9298 6277)

DRESDEN

- A new production of Capriccio, conducted by Christoph Prick and staged by Marco Arturo Marelli, opens at the Semperoper on Sun, with a cast including Birgit Fandrey, Olaf Bär, Hans-Peter Blochwitz and Theo Adam (repeated Dec 1, 4, 8, 10). Repertory also includes Der Rosenkavalier, Ariadne auf Naxos, Fidelio, Der fliegende Holländer and Les Contes d'Hoffmann (0351-484 2323)
- Julie Kaufmann sings Britten's Les Illuminations in a Dresden Philharmonic concert at the Kulturpalast on Sat and Sun. The programme, conducted by Jörg-Peter Weigle, also includes works by Schumann and Bruckner (0351-486 6666)

DUSSELDORF

Deutsche Oper am Rhein The main event this week is the premiere on Fri of Elke Gramss' production of Arabella, with Pamela Coburn in the title role. Repertory also includes Zar und Zimmermann, Turandot, Die Zauberflöte and Heinz Spoerli's production of Giselle (0211-890 8211). Duisburg Theatre has Salome on Sat (0203-300 9100)
Schauspielhaus Repertory includes a new production of Shakespeare's Troilus and Cressida directed by David Mouchtar-Samorai, plus Romeo and Juliet, Maxim Gorki's Summer Guests and Eugene O'Neill's Mourning Becomes Electra. American Drama Group of Europe gives an English-language performance next Tues of its stage adaptation of Charles Dickens' A Christmas Carol (tickets 0211-369911 information 0211-162200)

FRANKFURT

Oper Tonight, Sat, next Mon (also Dec 2, 4, 8): Sylvain Cambreling conducts Matthias Langhoff's new production of Simon Boccanegra, with a cast led by John Bröcheler. Sun: Les Contes d'Hoffmann (069-236061)
Alte Oper Tomorrow: an evening with Peter Ustinov. Next Monday: Ray Charles and his Orchestra. Tuesday: Ludwig Güttler plays baroque trumpet concertos (069-134 0400)

GOTHENBURG

Konserthuset Tonight, tomorrow: Neeme Järvi conducts Gothenburg Symphony Orchestra in works by Stenhammar, Beethoven and Nielsen, with instrumental soloists Mihaela Martin, Frans Helmerson and Roland Pöntinen. Next Tues: Gothenburg Vocal Ensemble in a programme of songs by Brahms, Grieg and Rossini. The Gothenburg Symphony Orchestra tours Switzerland from Nov 28 to Dec 4 (031-167000)
Stora Teatern Repertory consists of a new production of Rigoletto, conducted by Gabriele Bellini and staged by Sonja Frisell, and a revival of Christopher Renshaw's production of Die Zauberflöte (031-131300/031-136500)

HAMBURG

Staatsoper Tonight, Friday: La traviata with Tiziana Fabbricini, Francisco Araiza and Giorgio Zancanaro. Tomorrow, Saturday: ballets by Neumeier, Lubovich and Ek. Sunday: Christian Thielemann conducts Ruth Berghaus' production of Tristan und Isolde, with Wolfgang Fassler and Gabriele Schnaut. Tuesday: choreographies by Neumeier, Van Manen and Ek (040-351721)

LYON

Auditorium Tomorrow, Fri, Sat: Emmanel Krivine conducts Orchestre National de Lyon and Prague Philharmonic Chorus in Verdi's Requiem (7860 3713)
Opéra Fri: Lawrence Foster conducts a programme of duets and arias with Barbara Hendricks and Gino Quilico. On December 3: first night of Don Giovanni (tel 7200 4545 fax 7200 4546)

MUNICH

Staatsoper Tonight, Sat, next Tues: Gerd Albrecht conducts Thomas Langhoff's new production of La Damnation de Faust, with Thomas Moser, Jeanne Piland and Alan Titus. Tomorrow, Sun: Peter Schneider conducts Die Meistersinger von Nürnberg, with Bernd Weikl, Kurt Moll and Nancy Gustafson. Next Wed, Sat: La traviata with Julia Varady (089-221316)
Cuvilliés-Theater Fri, next Tues: Heinrich Bender conducts revival of Nikolaus Lehnhoff's production of Henze's Der Prinz von Homburg, with François Le Roux, Helga Dernesch and William Cochran (089-221316)
Gasteig Tonight, Sat, next Tues: Sergiu Celibidache conducts Munich Philharmonic Orchestra and Chorus in Verdi's Requiem, with soloists Margaret Price, Reinhild Runkel, Peter Dvorsky and Kurt Rydl. Sun: Alexander Dimitriev conducts St Petersburg Symphony Orchestra in works by Brahms and Rakhmaninov, with piano soloist Hélène Grimaud (089-4809 8614)

OSLO

Konserthus Tonight: Lucia Aliberti sings opera arias with orchestral accompaniment conducted by Maurizio Barbacini. Tomorrow, Fri: Mariss Jansons conducts Oslo Philharmonic Orchestra in works by Honegger and Bruch, with violin soloist Reiko Watanabe. Next week: Jansons conducts Honegger and Bruckner (2283 3200)

STOCKHOLM

Royal Opera The Swedish premiere of Glen Tetley's ballet The Tempest, set to music by Arne Nordheim, takes place on Fri (repeated Nov 27, Dec 1, 2, 4, 6, 8, 10, 14). Repertory also includes La traviata and Cav and Pag. Ann-Margret Pettersson's new production of The Turn of the Screw opens at Södra Teatern on Sat (tickets 08-248240 information 08-203515)
Konserthuset The programme tonight, tomorrow and Fri is devoted to a festival of Swedish music, the highlight of which is tomorrow's performance of Atterberg's Fourth Symphony by the Royal Stockholm Philharmonic Orchestra conducted by Gennady Rozhdestvensky (tickets 08-102110 information 08-212520)

STRASBOURG

Théâtre Municipal Fri: Klaus Weise conducts Jean-Claude Berutti's Lyon production of Schumann's Manfred, with Manfred Karge in the title role. Daily till next Wed (8875 4823)

STUTTGART

Staatstheater Tonight, Sat: Gabriele Ferro conducts concert performances of La Damnation de Faust, with Glenn Winslade, Marilyn Schmiege and Philippe Rouillon. Tomorrow, Sun, next Wed: Il barbiere di Siviglia.

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(All times are Central European Time)

MONDAY TO THURSDAY
Super Channel: European Business Today 0730; 2230
Monday Super Channel: West of Moscow 1230.
Super Channel: Financial Times Reports 0630
Wednesday Super Channel: Financial Times Reports 2130
Thursday Sky News: Financial Times Reports 2030; 0130
Friday Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0930
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

Quaint little quango

Democracy and British interests go hand in hand – sometimes

Last night Mr Douglas Hurd, the British foreign secretary, hosted a reception in honour of the Westminster Foundation for Democracy. This little-known quango has now been up and running for just over a year, headed by Diana Warwick, formerly general secretary of the Association of University Teachers.

Ms Warwick is certainly no Tory. By choosing her as the WFD's first chief executive, the board of governors (seven politicians of various parties, seven independent "experts") showed that, in its effort to spread pluralism overseas, Britain would practise what it preached.

At first glance the WFD looks like a belated and rather feeble imitation of the US National Endowment for Democracy, set up by Ronald Reagan as part of his worldwide anticommunist crusade back in 1983. Both are supposed to spend taxpayers' money on promoting democracy abroad, and both have structures designed to refute any suspicion that the party in government at home is using them exclusively to back like-minded parties in other countries.

The Ned has $35m (£23.7m) to spend annually, beside which the WFD's £2m for 1993-94 looks rather paltry – though it is double what it was in its first year, and Ms Warwick has asked for a further 50 per cent increase in 1994-95, hoping Mr Hurd's enthusiasm will shelter her against the chill wind blowing from the Treasury. But the Ned nearly got blown away itself this summer, when the House of Representatives deleted its entire budget from the 1994 foreign aid appropriations bill. (It was restored only in October by a House-Senate conference committee.)

The Ned had come under attack for corruption and mismanagement, and for running its own foreign policy which does not always coincide with the US government's. Its structure seems almost designed to produce that result, since it passes 70 per cent of the money on to four subsidiary quangoes, set up respectively by the Republican and Democratic parties, the AFL-CIO trade union movement, and the US Chamber of Commerce. Officials of these bodies, and of the Ned itself, have been accused of using the money for "political tourism", luxury travel for themselves and their friends ostensibly for political fact-finding, and of financing activities whose connection with democracy was dubious at best.

Examples from the 1980s given in a recent briefing paper from the Cato Institute, a Washington think-tank, include the funding of a military-backed presidential candidate in Panama; of the opposition to former President Oscar Arias of Costa Rica (whose impeccable democratic credentials were marred only by his criticism of US support for the

Fifty per cent of its funding goes to projects suggested by British political parties

Nicaraguan Contras); and, most bizarrely, of an extreme rightwing group in France, justified by the AFL-CIO on the grounds that France, under François Mitterrand, was "threatened by the communist apparatus".

The WFD, with much less money to throw around and a staff of only four, should have less scope for such abuses. Although 50 per cent of its funding goes to projects recommended by British political parties, each project has to be approved by the full board.

It has started work in three priority areas – central and eastern Europe, the former Soviet Union, and English-speaking Africa – where many countries attempting a transition to democracy are considered "intrinsically important to Britain" and/or particularly amenable to British leverage. Among projects Ms Warwick is particularly proud of are sponsorship of *Sposterihach*, a bulletin produced by a small group of Ukrainians "to inform Ukrainian opinion-formers about international affairs and international perceptions of Ukraine"; and support for independent media in the former Yugoslavia, notably the newspaper *Oslobodjenje* in Sarajevo and the TV station Studio B in Belgrade.

Both of those come under the "non-partisan" heading. Of projects proposed by political parties, the Conservatives have so far had the lion's share in central and eastern Europe, while all the South African projects in the first year were proposed by the Labour party, involving various forms of assistance to the ANC. By contrast there were non-partisan projects in Kenya and Malawi, both aimed at helping to nudge reluctant governments towards multiparty democracy.

Support for the Malawi Democratic Alliance was perhaps the most daring, since this happened in a country whose government had not yet conceded the principle of multiparty democracy. But it still fitted with the broad thrust of British foreign policy, which is to encourage accountable and transparent government in countries that receive British development aid. The WFD is conspicuous by its absence in east Asia, where western efforts to export democracy have run into harsh criticism from governments of countries such as Singapore, with which Britain has important business ties.

In the Islamic world, the WFD's first-year activities were confined to two projects in Yemen and one in the Palestinian occupied territories. Ms Warwick appeared uncomfortable when I asked her how the board would react to an appeal for help from a group of Saudi Arabian citizens seeking to promote democracy in their country. She referred me to the "guiding principles" set out in the foundation's first annual report, which declares the need to "reinforce success" and "prevent backsliding", and notes "the relative importance of different countries to British interests". Saudi Arabia is, of course, very important to British interests, but I doubt if Mr Hurd thinks those interests would be served by promoting democracy there.

On the other hand there is a fourth guiding principle, rather cryptically phrased: "the contribution to the 'domino' effect". Could it be that the foundation sees Yemen as a democratic "domino" on the Arabian peninsula? It is probably more tactful not to ask.

Rubbing each other up the right way

Peter Norman looks at the evolving relationship between the Treasury and the Bank of England

It has taken nearly five months. But yesterday Britain was able to see its new economic double act of Mr Kenneth Clarke, the chancellor, and Mr Eddie George, the governor of the Bank of England, in action together for the first time.

The half percentage point cut in bank base rates to 5.5 per cent, their lowest level since 1972, was a surprise. Nearly 10 months had elapsed since the last base rate cut from 7 per cent to 6 per cent. The City had been pencilling in a cut on or shortly after next Tuesday's Budget to offset, perhaps only in part, the higher taxes still expected that day.

The Treasury's gloss on the rate cut was significant. It marked a further step towards giving the Bank a greater share in monetary policy-making, a process that began after the debacle of sterling's exit from the European exchange rate mechanism on September 16 last year. At the same time, it reaffirmed the impression fostered in recent weeks by Mr Clarke that independence for the Bank is not high on his agenda.

In his statement announcing the cut, Mr Clarke made clear that the first official interest rate change since he moved into Number 11 Downing Street at the end of May was *his* decision. As has become customary since Black (or White) Wednesday, the change in borrowing costs was justified in the light of a range of monetary indicators. By saying that he had weighed these factors and taken "full account of the measures" that he would announce in the Budget, the chancellor also gave a strong indication that there would be no further Budget Day rate cut to follow yesterday's reduction.

But he also made clear that yesterday's move followed consultation with Mr George, and in that sense it is to be regarded as a joint decision of Bank governor and chancellor. Moreover, the timing of the decision had been left to the governor. Mr Clarke added that "from now on the precise timing of interest rate changes will be a matter for the Bank to decide".

The contrast with the last base rate cut on January 26 could not have been greater. That cut, determined as yesterday through the announcement of a minimum lending rate by the Bank, clashed with an important auction of government gilt-edged stocks and was widely interpreted as a politically inspired move by a badly rattled prime minister.

It prompted Mr Norman Lamont, the former chancellor, to urge in his bitter resignation speech in June that the timing of future interest rate changes "should never be used to offset some unfavourable political event".

Mr Lamont'e words bore fruit yesterday. An important consideration for Mr Clarke and the Bank was to divorce the rate cut from day-to-day politics. An announcement amid the ballyhoo of Budget day next week would have undermined the government's insistence that its monstary policy must be consistent with keeping inflation, as measured by the retail prices index minus mortgage interest payments, inside its 1 to 4 per cent target.

What we cannot judge is who influenced whom: whether, for example, there was e complete meeting of minds between Mr Clarke and the governor on half a percentage point or whether the chancellor pushed for more and "steady" Eddie, with his known loathing of inflation, resisted such a move.

It was also difficult yesterday to pinpoint when the basic decision to cut rates was taken. Neither the Bank nor Treasury would elahorate on the history of the move although the Treasury announcement, which referred to last Thursday's news of a drop in average earnings growth to 3 per cent, suggested that chancellor and Bank governor decided late last week.

However, the circumstances of the rate cut point to a high degree of trust between the chancellor and the governor. Mr George is clearly in the Budget "loop" and knows more ebout the chancellor's plans for taxation than government ministers other than the prime minister and those in the Treasury.

This is consistent with what we know about the relationship that has dsvsloped between the two men since Mr Clarke took over the Treasury at the end of May and Mr George moved up from deputy to governor of the Bank at the beginning of July.

The chancellor has been generous in his praise of Mr George and the appreciation is reciprocated. Although Mr Clarke is garrulous and Mr George famously tight-lipped, the two men are more similar than they might appear. Both are roughly the same age (Mr George is 55, Mr Clarke 53). Both were educated at Cambridge University. Both have risen from humble backgrounds on the strength of their ability and drive.

But the decision to involve the Bank more closely in interest rate policy has deeper roots than the good relationship between two successful men. It builds on the decision after sterling's exit from the ERM to set an official inflation target and make the Bank of England responsible for monitoring progress towards achieving this in its quarterly inflation report. Mr George, when named governor in February, was given a specific mandate "to support the government in its determination to bring about a lasting reduction in the rate of inflation". Mr Clarke has gradually extended the bank's leash. The inflation report published at the beginning of this month was the first to be issued by the Bank without having to be submitted to advance scrutiny by the Treasury.

So why did the Bank choose yesterday to cut rates? Mr George's explanation, to a BBC radio reporter yesterday, was that he "couldn't see any particular reason why we should wait until after the Budget", given what he knew from of the chancellor's Budget plans and from recent statistics.

It could all be a skilful move by the politically agile Mr Clarke to defuse anxieties ahead of his Budget. The Bank clearly regards yesterday's rate cut as part of a rebalancing of policy and not an easing. That suggests that the chancellor will announce a further fiscal tightening next week on top of the extra taxes totalling £6.7bn for 1994-95 and £10.3bn for 1995-96 announced in Mr Lamont's last Budget in March.

Although the Bank and Treasury insist that there is no "ready reckoner" to measure a trade-off between changes in interest rates and fiscal policy, it would be logical to deduce from yesterday's modest rate cut that any tax increases to be announced next week will not be great. The forecasts of City pundits yesterday pointed towards net tax increases of £2bn to £3bn.

However, Mr Clarke could still spring a nasty surprise. There are signs that the Bank believes the economy is growing more strongly than the 1.9 per cent annual rate disclosed in official figures last week. Its interest rate move yesterday has to be seen in the context of lags in the effect of monetary policy which mean that the Bank was acting with a view to conditions in the economy two years away rather than in the near future.

In other respects, yesterday was a good day for the Bank to act. There were no statistical releases to cause market operators to suppose that specific indicators in future might trigger further rate changes.

And Mr Clarke, by giving the Mr George a little more elbow room, may have taken some heat out of a longer-term policy issue – whether to give independence to the Bank.

The bandwagon for having an independent but democratically accountable Bank of England is gathering pace. A top level panel of academics, City luminaries, former central bankers and erstwhile finance ministry officials from Britain and abroad last week proposed that the Bank should be free to set monetary policy independent of the Treasury. The influential House of Commons Treasury and Civil Service Committee is expected to come up with the same message before Christmas.

It is not a message that the parliamentarian Mr Clarke is particularly keen to heed. The more he gives the Bank greater operational responsibility now, the less he may have to cede real power later.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Bonds sign of Italy's confidence

From Mr Fabrizio Galimberti.

Sir, Barry Riley is puzzled by Italy issuing 30-year government paper ("Italy adds another dimension to debt", November 17). I agree that a country believing in low inflation should be wary of locking-in high real interest rates for 30 years. But this did not stop the US government from issuing 30-year bonds at punitive rates in the early 1980s, when Paul Volcker (then chairman of the US Federal Reserve) was hell-bent on uprooting inflation. A country like Italy which, for better or worse, houses the third largest bond market in the world, must offer investors the possibility to play with all the notes of the maturity keyboard. As Barry Riley says, the 30-year bond is a diversion. But a useful one.

Mr Riley's conclusion is pessimistic: Italy will be forced to restructure the debt, and "there will be action long hefore 2023". However, both ths experience of Belgium (with a higher debt/gross domestic product ratio than Italy's) and the UK (where after the war the deht/GDP ratio stood at 300 per cent) show that default is not the only way out. Italy has already locked in low inflation through the most effective incomes policy in Europe. Policy makers can only wait for the markets to appreciate present virtue more than past vices.

Finally, Barry Riley writes that Italy's primary budget deficit is worsening. This is incorrect, both as to level and rate of change. The primary budget has been in surplus since 1992. The OECD estimates that in 1993 Italy will have a surplus of 2 per cent of GDP in its primary balance, against e surplus of 0.4 per cent for Japan and a string of deficits for the the five other G7 countries. As to the rate of change, Italy is about the only country recording an improvement of its public finances in 1993. Maybe this is wby the ftalian government felt confident enough to dip its financial toes in the uncharted waters of the 30-year bond.

Fabrizio Galimberti,
chief economist,
Il Sole 24 Ore,
Via P Lomazzo 52,
20154 Milan, Italy

VAT on all food a harmful move

From Mr Robin Simpson.

Sir, Michael Poyner (Letters, November 19) argues that all food should be subject to value added tax. He says that "to suggest that this would harm the less well-off is unproven".

There is already abundant evidence that, even without VAT on most foods, some families simply cannot afford a healthy diet. For instance, there are the 1990 study by the Family Welfare Association and the 1991 and later surveys by the National Children's Home. The findings of these studies are reinforced by data from the 1990 *Dietary and Nutritional Study of British Adults* and the 1991 *Household Consumption and Expenditure* survey, which spell out the sharp differences between the diets of the better off and those on low incomes. The NCH survey shows that it is primarily lack of money, not ignorance, that accounts for lower spending by poor households on fresh fruit and vegetables.

Low income can also make it impossible for people who live well away from big supermarkets, hypermarkets and discount stores, and who don't own a car, to afford frequent fares in order to benefit from lower prices often available at these shops.

Poor diet, of course, puts health at risk and will make it harder for the targets set in the government's *Health of the Nation* paper to be met.

If VAT were to be added to all foods, the plight of the poorest families would be worsened at a stroke, unless state benefits were raised to compensate.

There could also be an outcry from other consumers if their food bills suddenly rose by 7 per cent to cover VAT – particularly if the argument used to justify this is that it will bring the UK in line with the rest of the EU.

It seems highly premature to do this before reforms are completed to the EU's Common Agricultural Policy, which currently costs the average household of four almost £20 a week extra – the combined cost of food bills kept artificially high by this policy, and extra taxes which go to pay for storing the surpluses produced and then to subsidise their disposal.

Robin Simpson,
head of policy,
National Consumer Council,
20 Grosvenor Gardens,
London SW1W 0DH

Publication better than legislation on debts

From Mr D S Baber.

Sir, The debate continues as to whether commercial overdue accounts should be subject to statutory interest. Nothing has altered our belief that, if such legislation were imposed, it would be a bureaucratic nightmare to administer and could be viewed by many dehtors as an invitation to take more credit from their suppliers rather than approach their banks.

We firmly believe that the simple alternative suggestion would be sufficient: that all companies be required to publish in their statutory audited accounts the amount owed to creditors beyond (say) 60 days overdue.

Thus, at a glance, all potential suppliers could quickly judge if they would be likely to be paid promptly. The larger the corporation, the more frequently are the accounts puhlished so the situation would be well regulated. The really bad payers would soon gain the notoriety they deserve.

There is no doubt that if more capital were released into circulation rather than tied up in overdue accounts it would benefit the British economy enormously.

D S Baber,
managing director,
Credit Protection Association,
CPA House,
350 King Street,
London W6 0RX

Not really such a good way to run a railway

From Mr Ian MacKellar.

Sir, While there is much to commend French Railways, handing over British Rail to our French colleagues might not have the effects your correspondent, Noel Clarke (Letters, November 22), claims.

In 1992, for example, InterCity delivered 87 per cent of its trains on time or within 10 minutes. In the same year, 74.9 per cent of French TGVs clocked in within 14 minutes of advertised arrival times. InterCity achieved that without subsidy. In total, French Railways receives abont 50 per cent more subsidy than BR as a proportion of its income.

We may still have our imperfections, but BR has posted some remarkahle improvements in operating performance in recent years, and has consistently been among the most efficient in Europe financially for a decade.

Ian MacKellar,
chief press officer,
British Railways Board,
24 Eversholt Street,
London NW1 1DZ

Small business in favour of leasing changes

From Ms Daphne Green.

Sir, Tony Mallin of the Finance and Leasing Association is quite wrong to claim that changes by the Office of Fair Trading to current leasing regulations are not favoured by small businesses (Survey of leasing and asset finance, November 19).

This chamber has presented evidence personally and in writing to Sir Bryan Carsberg, OFT director-general, urging that protection afforded to individuals and unincorporated businesses be extended to private companies. Leasing deals can be a minefield for smaller businesses.

Both the FLA and government should remember that small businesses and the jobs that depend on them can be at the mercy of the unscrupulous and some regulation is in the interests of business.

Daphne Green,
chairman, Leeds & Bradford Chamber of Commerce and Small Business Committee,
Mill House, Troy Road,
Horsforth, Leeds LS18 5NQ

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Wednesday November 24 1993

The case for work sharing

The renewed interest in work-sharing among European governments, some larger employers, and the European Commission, does not deserve the brush off it has received from Mr Kenneth Clarke, the UK chancellor.

Some of Mr Clarke's suspicions are well-founded. Work-sharing has become associated with anti-competitive reductions in working time, as proposed in a recent European Socialist manifesto. Supporters of work-sharing also sometimes make the elementary mistake of assuming a static economy with a fixed amount of labour to share out and so overstate its potential contribution to reducing unemployment.

But there are, equally, a number of economic and political trends that are making work-sharing a more practical proposition.

First, there is a much more realistic acceptance on the part of employees, and even some unions, that work-sharing means pay-sharing and must not be allowed to increase unit labour costs. Second, a decade of growing incomes for most of those in employment in Europe has increased the number of employees who are sufficiently well paid to countenance a trade-off between pay and working time. Third, opinion polls suggest that work-sharing is popular because it goes with the grain of more flexible and family-friendly working hours. Indeed, on the same day that Mr Clarke was dismissing work sharing in Brussels, Ms Ann Widdicombe, the Employment Minister, was praising it in London, at a seminar organised by a group called New Ways to Work.

Prejudice and inertia

Standing in the way of the spread of work-sharing is prejudice and inertia on the part of both employers and employees, along with an array of tax, employment law, benefit and pension rules which create disincentives to cutting hours and pay. To cite just one example, a large number of older workers who might be attracted to work-sharing as they approach retirement are put off by final salary pensions, which link their pension level to their final rates of pay.

Many employers, too, point out that even if workers take corresponding cuts in pay the outcome is not unit labour cost neutral for them as there are extra head-count costs relating to such things as recruitment and training.

One idea would be for governments to provide modest incentives for employers to offset the disincentives to companies of a larger headcount. But many employers should not require subsidies. Service organisations, especially, can get a better relative contribution from part-time or four-day-week staff. By offering flexible working time packages, they can recruit from a larger base and retain valued staff. The main role for government should, therefore, be in removing disincentives which work against flexible working hours.

Reduction in hours

Government can also set an example in the public sector. The Netherlands example, where all new posts in the public sector are limited to a maximum 32 hour week, would probably not be appropriate in the UK. But the Netherlands did experience a 30 per cent rise in employment between 1983 and 1991, along with a 13 per cent reduction in hours worked per person.

The economics of work-sharing are more complex than that equation suggests, and work-sharing does not deal with the root causes of unemployment. But if the effect on both demand and competitiveness is neutral, there is no reason why it should not have some small positive impact on employment over the medium-term.

For many workers, however, especially those on middle or lower incomes, cutting working time and pay remains unattractive. Nissan car workers in Sunderland, faced with a downturn in production recently, chose to stick to normal working hours for the majority and voluntary redundancy for a small minority. And even relatively well-off Volkswagen workers have been complaining that the loss of one day's pay per week will leave them struggling.

The message that there is no such thing as a "normal" working week, working day or working lifetime will take years to sink in. That applies as much in Brussels as in governments and businesses across Europe.

Clarke nudges UK base rate

The half a percentage point cut in the UK base rate of interest announced yesterday is a bit of a disappointment. It is disappointing not so much in itself, as for what it suggests about the prospective balance of fiscal and monetary policy. If next week's fiscal adjustment were of comparably modest proportions, the chancellor would have failed to achieve the needed rebalancing of UK macroeconomic policy.

A country with a floating exchange rate can correct monetary policy mistakes relatively easily. Fiscal mistakes are another matter. If this opportunity for a decisive rebalancing were to be lost, it may prove difficult to correct the error before the next election. By then, it could be too late.

When Mr Clarke states that the base rate cut takes "full account of the overall stance of the Budget", he would seem to be making two points: first and most obviously, that no further cuts can be expected at the time of the Budget; second and more speculatively, that the Budget will contain only a modest further fiscal tightening.

That the Bank of England has been allowed to determine the timing of the decision is intended to reinforce credibility by divorcing the timing of the cut from any specific political event and from any particular economic indicator. This is sensible. But Mr Clarke remains the organ grinder.

This is the first cut of just half a point since May 1992, which suggests that the exceptional period of large cuts that followed sterling's exit from the ERM is now over. Small frequent changes are a sensible way of adapting to modest changes in circumstances. Small, infrequent changes are another matter.

Lower inflation

This is, after all, the first interest rate cut in 10 months. Yet that period has seen encouraging progress on inflation, particularly in view of the devaluation. It has also seen a marked downward adjustment in expectations of inflation. At the same time, recovery has proceeded at a modest pace, if faster than the Treasury expected last March. If this performance justifies no more than a half point cut in base rates, the government would indeed seem determined to lower inflation towards the middle of its 1-4 per cent target range. The top end is, it appears, not low enough.

The aims is defensible. The UK has paid a high price to get inflation down. But the pursuit of the the aim in this way brings with it risks.

The most important danger is that fiscal tightening may become still more necessary, since slow recovery would of itself entail a correspondingly modest improvement in the fiscal position. The worry is that such a modest improvement from what is the UK's biggest ever inflation-adjusted deficit in peace time may undermine the credibility of the low inflation objective, which would increase the chances of a market-driven rise in long term nominal interest rates.

Monetary easing

The possibility that a modest monetary easing may, in the end, necessitate a larger fiscal adjustment than a sharp one is only one danger. Also problematic is the UK's external position. It is possible to take a purist position on the fact that the UK is running a current account deficit while output is well below potential. But the purist position depends on the implausible assumption that resources can be shifted smoothly and easily in and out of the production of tradeable goods and services.

All the evidence on the performance of the UK economy over the long term suggests this is not true. It takes a long time before changes in profitability lead to increased investment in industries exposed to the pressures of external competition. This makes it still more essential that the fiscal and monetary policy mix be consistent with such sustained profitability. The position today offers an opportunity to secure that aim, along with low inflation.

A large fiscal adjustment offset by further reductions in base rates would be the best possible policy in the UK's current position. True, it would also risk a short term spike in headline inflation. But it would also reduce the risks posed by the present fiscal position. Boldness is sometimes safer than the more comfortable alternative of "steady as she goes". This is one of those times.

Burgers, booze and Bull

Guy de Jonquières examines GrandMet's strategy and seeks common ground between its food and drinks divisions

For much of the past seven years Grand Metropolitan, the large consumer products and services group, has insisted that it is no longer an unpredictable maverick and has acquired a clear and purposeful sense of direction. Its challenge now is to show that it knows not only where it wants to go, but how to get there.

From next Wednesday, there will be a new pair of hands on the wheel. They belong to Mr George Bull, who moves from heading GrandMet's food division to become chief executive and heir apparent to Sir Allen Sheppard, the group's flamboyant and hyper-active chairman.

Long an acquisitive conglomerate, GrandMet has re-shaped its operations since the mid-1980s. It has sold a string of mostly unrelated businesses including hotels, betting shops, brewing and much of its pubs estate. It has also entered new ones, notably by buying Pillsbury, the US food and restaurants company, for $5.8bn in 1988.

Though the torrent of deals bewildered some observers, the group says that, unlike its previous wheeling and dealing, they were all part of a master plan. Its central objective is to become a tightly focused concern, dedicated to international leadership in branded food, drinks and retailing.

Yet old ghosts continue to haunt GrandMet. For all its repeated statements that it is committed to a coherent strategy, Sir Allen admits that many investors remain uncomfortable. "Just under the surface, they are still ill at ease," he says.

The choice of Mr Bull has been widely interpreted as a sign that GrandMet's board believes a change of management style – if not of corporate direction – is needed. All the more so, since Mr Bull was promoted over Mr Ian Martin, the chief operating officer long considered favourite for the top job.

Unlike Mr Martin, who has a reputation for abrasiveness and is best-known for his skill in reorganising troubled businesses, Mr Bull is a suave marketing man to his fingertips. A fruity-voiced old Etonian and former Guards officer, he affects an amiably bumbling manner, calling himself "a simple drinks merchant".

The pose fools nobody who knows him well. In reality, he is respected as an astute, demanding and independent-minded manager, who inspires strong loyalty among staff. He also has an impressive record in building businesses – not traditionally regarded as GrandMet's strongest suit.

As chief executive and then chairman until last year of International Distillers & Vintners, Grand Met's drinks division, he helped make the business the world's largest spirits company and the main engine of the group's growth.

IDV's compound annual profits growth exceeded 20 per cent in the five years to 1992, when it contributed 56 per cent of GrandMet's total. Despite recession, it continues to churn out cash and is estimated to have raised profits by at least 10 per cent in the year to September.

The 57-year-old Mr Bull strikes a more conservative tone than the group has sometimes done in the past. Shunning breathless rhetoric about global goals – "I hate the word global" – he talks instead of a stepping-stone approach to international expansion. He is also said to be less preoccupied than Sir Allen with maximising short-term financial returns.

His personal style is unusually austere by the standards of senior GrandMet executives. While the group's headquarters occupy a large and sumptuously furnished mansion in London's St James's Square, Mr Bull made a point of having his utilitarian quarters at IDV's Regents' Park offices re-decorated only infrequently.

A strong believer in decentralised management, he has already set about chopping back an elaborate network of committees which sprang up under Mr Martin. "George wants less interference from the centre. We are going back to the good old days when decisions were taken quickly," says Mr John McGrath, chief executive of IDV.

GrandMet is proud of its entrepreneurial culture, inherited from Sir Maxwell Joseph, the mercurial financier who founded it 31 years ago. Indeed, the group believes the freedom it gives managers is one of its greatest assets. "We have a very strong history of being a bundle of energy, a get-up-and-go, doing company," says Mr Bull.

Like Sir Allen, he says GrandMet's competitive advantage is rooted in a proven set of marketing and brand-building skills, which can be transferred across frontiers and between businesses.

Sir Allen says many investors remain uncomfortable. 'Just under the surface, they are still ill at ease'

Mr Bull, who has run GrandMet's food division since July last year, argues that its main businesses also operate in much the same market: "All our consumers are identical. They all eat and drink added-value branded products. They are also international – they are the same consumers everywhere."

But these arguments do not convince everyone – and some wonder how firmly Mr Bull believes them. "Much of the international branding strategy is hype," says a former GrandMet executive. "It grew out of a search for a credible concept which investors would buy, not from any deep-rooted corporate philosophy."

Even sceptics agree that the group has a talent for attracting and motivating able managers. But they also argue that its sometimes uneven past performance and history of free-wheeling individualism make it hard to be sure exactly what its enduring core skills are.

Some executives also concede that food manufacturing and alcoholic drinks are much less alike than the company claims. Capital-intensive and directed largely at the mass market, the former business calls for management, marketing and distribution methods very different from the latter, which involves few fixed assets and is geared to luxury brands.

The dissimilarities were further underscored last year, when a collapse in US fresh produce prices pole-axed profits at Green Giant, the processed vegetable business which is Pillsbury's biggest division. Nor is there much obvious strategic common ground between food manufacturing, drinks and Burger King, the fast food division, which is primarily a franchised service operator.

To date, IDV, which has operations in 48 countries, is the only part of Grand Met to have achieved broad-based international success. The division, which is jealously protective of its operational autonomy, has increased its share of mature western markets by a blend of acquisitions, skilful marketing and aggressive product innovation.

But though IDV believes its performance can continue to defy a steady decline in alcohol consumption in the west, reduced scope for acquisitions require it increasingly to look elsewhere for volume growth. Its prime target is eastern Europe, where opportunities – but also risks – are large.

GrandMet's retailing record is more mixed. Burger King has been turned from a lame duck into a highly profitable growth business, thanks largely to the efforts of Mr Barry Gibbon, who has run it since it was acquired five years ago.

George Bull, the heir apparent, calls himself 'a simple drinks merchant'. Nobody who knows him well is fooled

By contrast, Pearle, the US eyewear chain which is the group's only pure retailing operation, has performed dismally. It is being extensively restructured in an effort to stem losses and is likely to be sold if a buyer can be found.

But the acid test of GrandMet's strategy is its food business. Sir Allen says he still thinks it can be as successful internationally as IDV. But he concedes that GrandMet faces "a hard slog". "We're very much a come-lately. It's a great pity we didn't begin our strategy a decade earlier," he says.

Pillsbury owns some long-established brands, and its efficiency and marketing have been sharpened up since it was acquired. However, the company is beset by price competition in US groceries, which it is seeking to offset by faster cost-cutting and new product development.

Furthermore, Pillsbury is only medium-sized by food industry standards, with few sales outside North America. The markets in which it is strongest, such as chilled dough and processed vegetables, are also relatively mature. Mr Paul Walsh, its chief executive, says the company needs more growth businesses.

Building up Pillsbury's position in North America must take priority over international expansion, he says, "because if we miss a beat in the US, we won't have the cash flow to develop abroad."

So far, Pillsbury has been cautious about moving outside the US, concentrating principally on a handful of developing countries such as Mexico, China and South Africa. Its preferred method of market entry is through joint ventures with local partners, Mr Walsh says, because they require fewer management and financial resources than do wholly-owned operations.

The boldest international foray has been by Häagen-Dazs, Pillsbury's premium ice cream brand. Expansion in Europe and Japan has helped double annual sales to about $500m in five years, and is the most striking advertisement of GrandMet's claims to expertise in taking food brands across frontiers.

But Häagen-Dazs has yet to show a profit. Some observers, even inside GrandMet, also fear it may become vulnerable to more powerful competitors such as Unilever and Nestlé, which both plan rival "super-premium" ice cream brands.

The liveliest debate, though, is what to do about Europe, where GrandMet is little more than a marginal player, with interests in baking, canning and food service. Efforts to turn Brossard, its cake subsidiary, into a Euro-brand have made little headway, and an exhaustive search for suitable merger or takeover candidates has yielded little.

Some executives have begun to question whether it is worth persevering. They argue that Europe's economic prospects are so unexciting, its food markets so fragmented and local competition so well-entrenched, that the group should concentrate on Asia instead.

Much may depend on acquisition opportunities. Sir Allen says mega-bids are "less the flavour of the decade than in the 1980s", while Mr Bull is believed to be cautious about their virtues. But Sir Allen is also widely thought eager to make one more big takeover before he retires in early 1996.

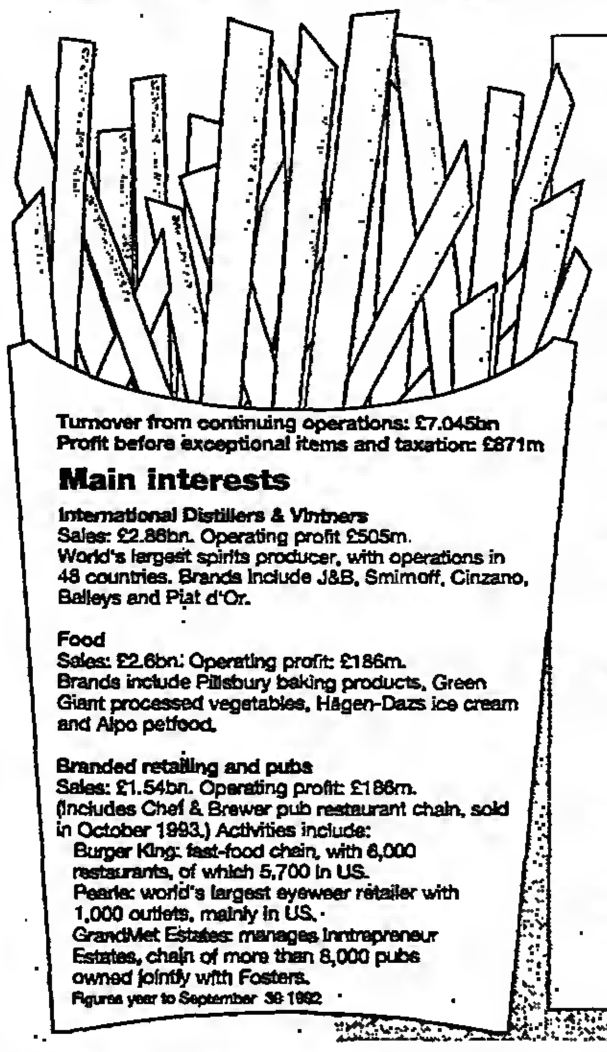
Whether GrandMet's balance sheet would allow that is another matter. Though gearing has fallen sharply since the late 1980s, it is still estimated at more than 50 per cent when the value of its acquired brands is included, and about 180 per cent without them.

To afford a really juicy target, the group might need to make a big disposal. The only obvious candidate is Burger King. Some observers think GrandMet may in any case have to consider selling the business eventually if it is to mobilise the resources needed to become a serious world player in food manufacturing.

Meanwhile, shareholders may need to wait longer to enjoy tangible rewards from GrandMet's much-trumpeted strategy. The group has forecast a 5 per cent increase in pre-tax profits before exceptional items for the full year, to be published on December 1, and says trading conditions remain tough. At 385p yesterday, its shares are well below their peak of 512p 18 months ago.

Sir Allen is jauntily philosophical: "One day, doors will open, clouds will roll back and our shares will be dramatically re-rated." However, he adds: "It will probably take a new chairman to make that change."

GrandMet: a mixed bag of businesses



GrandMet's biggest deals since 1985

- 1985: Buys Pearle for $386m
- 1987: Buys Heublein for $1.2bn. Sells contract services business for £160m, Quality Care for $102m and Children's world for $117m
- 1988: Buys Pillsbury for $5.8bn and William Hill for £331m. Sells Intercontinental Hotels for £1.2bn net and US drinks bottlers for $400m
- 1989: Buys Wimpy restaurants for £10am. Sells betting shops for £685m, Pillsbury restaurants for $431m, and Bumble Bee for $269m
- 1990: Buys 20 per cent of Rémy Cointreau for estimated £100m. Puts 3,750 pubs into Inntrepreneur joint ventures with Courage and sells breweries
- 1992: Buys McGlynn bakery for estimated $120m and full control of Cinzano for estimated £80m
- 1993: Sells Chef and Brewer for £703m

OBSERVER

Pizza the action

■ Some companies have learned to their cost that gimmicky promotions can backfire – viz Hoover's disastrous free flights offer . . .

Pizza Hut, the Pepsico-owned restaurant chain, is possibly now regretting its latest marketing foray at New York's Madison Square Garden, home to the New York Knicks, America's top basketball team.

At Knicks' games Pizza Hut is offering free pizzas to everyone in the crowd, so long as the Knicks' opponents fail to score at least 85 points. This is quite a gamble, given that every game is a sell-out to a capacity crowd of 20,000 fans, and the Knicks are the best defensive team in the league.

Several times so far this season visiting teams have struggled to make 85 points, putting the heat under those Pizza Hut executives responsible for the idea. Their personal career version of pizza-to-go almost arrived in last week's game against Miami Heat.

Thousands of hungry New Yorkers howled "pizza, pizza, pizza" as the final seconds of the game against Miami – on a puny 82 points – ticked by. Miraculously, Miami reached 85 points as the whistle blew.

Pizza Hut executives also blew – a sigh of relief – but it vanished as quickly as the smile on the face of a New York waiter who sees a tip of less than 12.5 per cent.

For although the execs had avoided a jumbo-sized payout, their promo had nevertheless clearly bombed. New Yorkers to the core, the disappointed fans stopped screaming for pizza and instead started yelling abuse at Pizza Hut.

Speak up

■ The English-Speaking Union has placed an ad in the weekly magazine *The Spectator*, calling for "volunteer tutors" to help give "people from abroad the opportunity to imrove [sic] their English" . . . and on how to mind their p's and q's, no doubt.

Sucking up

■ My, my. The Bank of England seems to be working itself up into a complete tizzy about Crest, its answer to the stock exchange's failed Taurus share settlement scheme.

Iain Saville, the project controller, has done something few Bank of England officials ever dare to do. He's written a letter to the Investors Chronicle in a bid to get across his side of the argument. Moreover, today sees the first of a series of Bank of England roadshows up and down the country, enabling investors to moan at Pen Kent, the closest there is to a Bank of England troubleshooter.

Not since former deputy governor Kit McMahon led a US roadshow in the 1970s to drum up support for the Britain's first Yankee bond issue has the Bank ever waged such a high-profile publicity campaign.

Dirty business

■ Michael Heseltine is keen to join forces with the Prince of Wales to help the DTI in its global export drive.

So how come January will see him with a group of British businessmen in Melbourne – and His Royal Highness simultaneously in Sydney on entirely different business? The answer lies in the sort of unwritten protocol invented long before the crude business of trade became a paramount consideration of government.

Prince Charles – leading a mission of his Business Leaders' Forum charity – cannot be directly associated with trade promotion in those countries where he remains heir to the throne.

And despite Australian prime minister Paul Keating's best efforts, that is still likely to be the case when the Prince arrives.

British disease

■ No other country makes such a song and dance about its budget as does Britain. Now even the British Psychological Society is in on the act, for the first time briefing the nation's media on its own nutty ideas.

In the event, Cary Cooper from UMIST, together with his former PhD student Howard Kahn, now at Heriot-Watt, were hard put to go beyond the basic truisms.

The budget "can make people feel more or less financially secure, which can inevitably affect their spending or investing or entrepreneurial behaviours".

When cornered, Cooper and Kahn admitted they had no research to back up their conclusions. Cooper had rung overseas colleagues to see if they had looked into psychology and their budgets. They hadn't. Surprise, surprise.

Winning streak

■ Joo Alves, the lucky Brazilian politician who recently attributed his wealth to lottery winnings rather than kickbacks, is even luckier than Observer thought.

According to the Caixa Economica Federal, a government agency investigating the case, for Alves' version to be correct he must have won the lottery 34,000 times in the space of five years and pocketed some $9m in winnings. Still, this is the land of entrepreneurial spirit, as one Rio de Janeiro lottery demonstrates. Its latest advertising slogan runs: "Your chances are back – Joo Alves is no longer playing."

Steady on, lad

■ Can the Leeds Permanent, Britain's fifth biggest building society, do nothing right? Nine months after its chief executive announced he was quitting, it has yet to find a permanent replacement. It failed to carry through its planned merger with National Provincial and yesterday it told Press Association it was cutting its mortgage rate by half a point and then changed its mind. "I got over-excited and jumped the gun," explained an embarrassed young man in the press office.

FINANCIAL TIMES
Wednesday November 24 1993

EU limits working hours and curbs youth labour

By David Gardner in Brussels

European Union ministers yesterday passed directives on working time, setting a 48-hour week limit and guaranteeing mandatory time off. The legislation also limits the time children and adolescents can work.

The meeting of employment and social affairs ministers was the first since the Maastricht treaty came into force. Britain has an opt-out provision on the treaty's so-called social chapter.

The UK has won extensive derogations, or opt-outs with reviews after 10 and seven years respectively, on both these EU laws, put through under pre-Maastricht rules that attempted to keep the 12 on roughly the same social policy course.

The European Commission and the UK's 11 partners also formally opted to decide without Britain about plans for compulsory consultation with elected works councils in pan-European countries, using Maastricht's social chapter.

A proposal to give unpaid parental leave of three months to both fathers and mothers, with guarantees that they would get their jobs back, was also abandoned after being blocked by the UK.

It will now almost certainly be put forward again for approval by the 11, senior EU officials said.

Mr David Hunt, UK employment secretary, was jubilant and combative, saying Britain was winning the argument about the cost to Europe's industrial competitiveness of EU social legislation.

"I'm very optimistic that more and more governments are listening to what we have to say," he said, in spite of Britain's isolation on all four measures.

Mr Hunt said the British government would be taking the working time directive to the European Court, probably in the new year, because it had been "inappropriately" put through under health and safety provisions that denied the UK its veto.

Under the measure, there are safeguards for the 2.5m British workers who now work more than 48 hours a week who no longer wish to do so.

The UK will also for the first time be obliged to introduce laws giving mandatory daily rest periods after six consecutive hours; a minimum daily rest period of 11 hours; at least one day a week off, no more than eight hours a shift on average for night work; and four weeks' annual paid holiday.

UK officials insisted that Luxembourg also had difficulty with the provisions of the parental leave plan. But that is because the tiny Grand Duchy offers eight times the amount of time off to look after children in the Euro-plan, but without the right of return to the same job.

The 11 are happy to accommodate the Luxembourg mix – but the exasperation with the UK at yesterday's meeting showed that patience with Britain's blocking tactics has been all but exhausted.

One EC diplomat said: "The UK is living in the stone age. Any kind of standards [are] anathema to them."

"It's ideology rather than content," another said. "It's the word 'social' that offends."

Gaidar urges more government protection for Russian industry

By Leyla Boulton in Moscow

Mr Yegor Gaidar, Russia's deputy prime minister, yesterday called on the government to apply "sensible protectionism" to the country's industrialists and entrepreneurs.

Mr Gaidar who led the country's move towards a free market two years ago, said that since prices had been liberalised and the economy opened to imports, Russian companies' demands for protection against foreign competition showed they had adjusted to market conditions.

He denied that he had changed his ultra-liberal views over the past two years to win votes in next month's parliamentary elections. Protection for business has been a popular theme in the election campaign.

"When we freed prices we needed imports because we did not even have any domestic markets", he said yesterday. Russia's circumstances have changed.

Now, the government was happy to respond to pleas from its farmers for an end to grain imports, and from other producers who now realised they had a market to defend.

Import tariffs, which the government has steadily increased since opening up the economy in January last year, were also a useful source of budget revenues, he said: "We believe that domestic markets should be protected and we can use these tariffs to raise some additional revenues."

He did not say which imports should be taxed, but added they should not be punitive ones, simply fees to support domestic industry.

At the same time he vowed to resist demands to protect Russian monopoly producers which had no domestic competition. Nor would he isolate the Russian economy from world markets, he said, claiming that Russia's speedy entry to the General Agreement on Tariffs and Trade, would help the country stay its course as an open economy, with access to other markets.

In the past two years, Russian consumers have been flooded with western advertising and goods ranging from chocolate to cars, while Russian producers of similar, if lower quality, goods have been deep in crisis.

While many Russians have welcomed an increased choice of goods – that is those who can afford them – many are offended by the impression that their country is no longer a great industrial power.

The main parties competing with Russia's Choice, the electoral bloc headed by Mr Gaidar, are promising increased support for national producers and protection from western competition to give them time to adjust to market conditions.

The day after Mr Gaidar met leading Russian bankers, President Boris Yeltsin issued a decree limiting the activities of foreign banks in Russia. Yesterday a new list of increased import tariffs was published.

UK interest rate cut ahead of budget

Continued from Page 1

rate cut would do little to trigger inflation.

In a statement, Mr Clarke said the decision was justified by weak price pressures, together with recent cuts in interest rates in continental Europe. He said the change – signalled just before 10am when the Bank announced the minimum lending rate at which it lent to the banking system was being lowered from 6 per cent to 5.5 per cent – was consistent with Britain's 4 per cent target for underlying inflation. It also took "full account" of the measures he will announce in his first budget.

In a BBC Radio interview, Mr George said he had decided on the timing of the cut against the background of the latest batch of economic statistics and what he knew of Mr Clarke's Budget plans. "I couldn't see any particular reason why we should wait until after the budget," he said.

Commenting on the changes in presentation, Mr George said they should remove the lingering suspicion in markets that rate changes were politically motivated. "I think there has been quite often a perception in the market place that the only reason a change had been made had been for some kind of political reason. Actually that's very rarely if ever been true in my experience," he said.

Fiat plans to cut 5% of auto workforce

By Robert Graham in Rome

Fiat, Italy's largest private group, is planning to cut 5 per cent of its workforce in the Italian automotive sector and to lay off a further 10 per cent for up to two years.

Almost 5,000 jobs are to be axed.

The news was broken by the trade union movement in advance of a meeting last night between Fiat management and representatives of the engineering unions in Rome. Fiat made no formal comment but confirmed that the union estimates were based on reliable preliminary documents.

Earlier, Mr Cesare Romiti, Fiat's chief executive, met Mr Carlo Azeglio Ciampi, the prime minister. He is believed to have outlined the Turin-based motor group's plans to confront the depressed state of the international car industry.

Some union officials voiced the fear last night that the cuts may be far greater if Fiat is unable to make extensive use of the government-backed scheme financing temporary lay-offs between now and 1996.

Fiat is the last of the main European car manufacturers to seek cuts in its workforce, and this is the first substantial cut since 1982-83.

But this year's Italian production, yet to reflect the impact of the Punto launched this autumn, will be little more than 1.1m. That compares with capacity of nearly 2m vehicles.

Fiat Auto, the car division, employs 95,000 people in Italy and a further 40,000 overseas. According to the unions, up to 3,800 jobs are to be cut among administrative staff and approximately another 1,000 factory posts. They are to come from Fiat plants up and down the country.

However, the unions believe the greatest uncertainty surrounds the Arese plant near Milan, built in 1960, where production of the Alfa 164 is due to end in 1996.

It is likely that the bulk of the 8,000-odd lay-offs sought will come from the older plants of Mirafiori and Rivalta in the north.

Fiat management is against the idea of trying to protect jobs through a shorter working week, especially as it is investing L40,000bn ($24bn) through to the end of the century in upgrading production and new models. The management is relying heavily on being able to work out a flexible arrangement through temporary lay-offs.

The government-backed scheme allows workers to be kept on staff for up to two years on 80 per cent pay while being laid off. The arrangement can be for either a continuous or an interrupted period.

Volvo awaits shareholders' decision, Page 19
General Motors disposal, Page 18

THE LEX COLUMN

Back to base

The only real surprise about yesterday's base rate cut was its timing. Markets have long discounted a cut near the time of the Budget. Its arrival a week early might seem neither here nor there, but it does mean that a half point is all the market can expect. Indeed, the Bank, which only a few weeks ago was arguing against a cut, has set something of a floor under interest rates for the time being. On its own admission, yesterday's cut takes into account the overall stance of the Budget – evidently the Governor has enjoyed an insight so far denied to the full cabinet. If the markets are disappointed by the content of the Budget itself, there will be no consolation in the thought that a large rate cut could be in the offing.

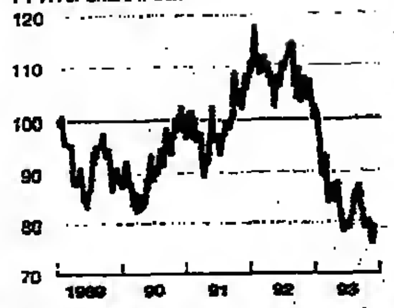
Nor does a mere half point cut suggest that much radical pruning of the PSBR is planned. Were the chancellor to be planning a full frontal attack on mortgage interest relief, say, a deeper rate cut would have been in order. That would not preclude some deft manipulation of income tax allowances which would shift a greater burden on to higher rate tax payers while permitting an expansion of the 20 per cent band. Mr Clarke will surely still want to make a splash with his first effort. The political attractions of such an approach are beguiling.

If that is indeed the approach, the markets may be less impressed by his failure to correct the overall deficit. Yesterday's cut almost certainly brought the trough of the interest rate cycle closer. Yet the recovery remains modest, and at some stage a painful fiscal adjustment looms. There is little enticement for equities in that. If base rates have little further to fall, there is not much to go for at the short end of the gilt market either. That will make the PSBR harder to fund as long as it remains large.

FT-SE Index: 3069.3 (-1.3)

Allied-Lyons

Share price relative to the FT-A All-Share Index



Source: Datastream

Thorn EMI

In general, investors are paying far more for shares than trade buyers are prepared to stomach for companies, as the current dearth of takeovers indicates. Thorn is a case in point. It is hard to argue that the stock market undervalues the company. The interim divided was flat and the annual payout may be raised only a little above the rate of inflation. Thereafter, it will take time to rebuild cover sufficiently to justify significant increases. Earnings will remain depressed by the horrors of Thorn's seemingly unsaleable defence business, which lost £14.7m in the first half. Meanwhile, the noise emanating from the investigations into its US rental arm and CD division will continue to drown out the vibrant underlying performance of both businesses.

Investors may fondly imagine that other companies, with an urge to follow the multi-media fashion, could well place a higher value on Thorn's assets. With 22 per cent of the global music market, Thorn is undoubtedly a hot intellectual property. Like Paramount in film production, Thorn commands scarcity value. Yet the benefits of vertical integration in music production and distribution remain unproven. Moreover, with the diversified Thorn currently trading on a similar rating to the narrowly-focused Polygram, the market is already implicitly placing a sky-high value on Thorn's music business. It seems unlikely that any potential predator would be prepared to offer more.

Vodafone

There was more fodder for the bulls than meat for the bears in Vodafone's interim results. The drop in operating margin was due to start-up losses overseas rather than competitive pressure at home. Declining revenue per subscriber in the UK is a reminder that margins will fall over time, but Vodafone is still attracting new customers fast enough to maintain momentum. Importantly, Mercury's One-2-One network appears to be expanding rather than cannibalising the market for mobile phones.

Yet it is early to draw firm conclusions about the impact of low-cost competition. Hutchison is waiting in the wings, and pricing could take another downward lurch next year. Vodafone therefore looks wise to pursue growth overseas. Operating losses from overseas projects this year and next – and sharply higher capital expenditure – are the price. But while its UK business is throwing off cash and generating double-digit profits growth, Vodafone can stand the strain. Cash piles have few attractions anyway with interest rates so low.

With US investors determined to focus on the value of Vodafone's portfolio of licences, even substantial dents in profits and cash flow will not undermine the shares. Judging the worth of cellular phone licences from Greece to Fiji is no easy matter, but the appreciation of Vodafone's shares during the summer owes much to efforts to do so. Whether such notional valuations will be justified by earnings is less certain.

Allied-Lyons

Were it not for the difficult markets in which it operates, the interim figures from Allied-Lyons would be truly disappointing. The excuse for the mere 3.4 per cent rise in profits from wines and spirits was the run-down of US stockpiles of European drinks, built up during last year's transatlantic trade dispute over oilseeds. But any distortion on that score must surely be offset by gains on currency movements. Similarly the 10.5 per cent rise in brewing profits conceals a distressingly weak start to the Carlsberg-Tetley joint venture, which is not included in the previous year's figures. Evidently Allied, having had its hands full with the competition policy aspects, misjudged the extent of discounting in the beer market when the venture was finally launched.

Retailing and, in a more modest way, food manufacturing, look better. But the former generates little cash. So it is difficult to see anything other than a slow reduction in the group's £2bn debt, especially if the flow of proceeds from disposals slows and pension contributions resume. Allied has also slipped a further £43m of provisions on to its balance sheet, largely to cover restructuring at Carlsberg-Tetley which will entail additional cash outlays.

The consolation to investors daunted by such a hard slog is a yield approaching 5 per cent. That looks doubly attractive with base rates at 5.5. From Allied's perspective, the Bank's timing was indeed precise.

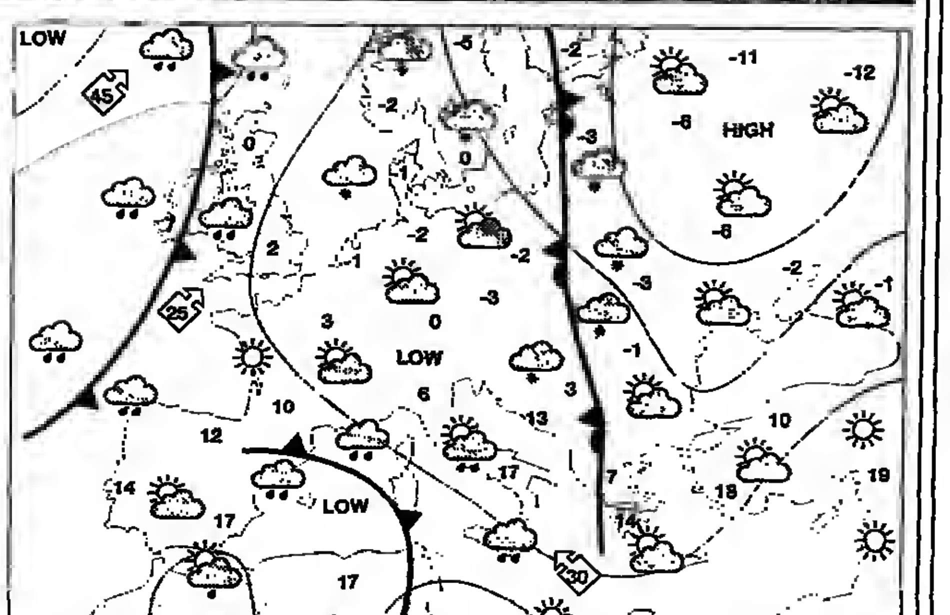
FT WORLD WEATHER

Europe today

Wintry conditions will continue in most regions with unseasonably low temperatures. Snow cover will show little change. A few surges of warm air will affect the west while a frontal zone over Ireland will move east bringing widespread snow and rain with a risk of ice in the UK. Temperatures will moderate. Low pressure near the Balearics will push warm air into Spain and southern France causing showers in the western Mediterranean. Cloud and scattered snow showers will linger from the Balkans to the Baltic states but will decrease in southern areas. Widespread snow is expected in Scandinavia, the Benelux and Germany where snow may accumulate to 20cms.

Five-day forecast

Most regions will continue wintry and frosty. Temperatures will remain unseasonably low, but colder readings will only be noticed over Scandinavia and parts of Russia. Further snow will be mainly limited to Scandinavia and the Black Sea regions. Low pressure near the Balearics will move east and intensify, keeping the Mediterranean region unsettled.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	29
Accra	fair	33
Algiers	shower	17
Amsterdam	cloudy	-1
Athens	cloudy	14
B. Aires	shower	21
B.ham	sleet	1
Bangkok	fair	32
Barcelona	shower	13
Beijing	sun	-3
Belfast	rain	6
Belgrade	cloudy	3
Berlin	fair	-3
Bermuda	fair	26
Bogota	cloudy	20
Bombay	sun	35
Brussels	cloudy	-1
Budapest	snow	3
C.hagen	cloudy	0
Cairo	sun	23
Cape Town	fair	27
Caracas	cloudy	30
Cardiff	ice	4
Chicago	cloudy	6
Cologne	fair	0
D' Salaam	shower	28
Dakar	fair	26
Dallas	cloudy	13
Delhi	sun	27
Dubai	fair	29
Dublin	rain	7
Dubrovnik	fair	15
Edinburgh	sleet	3
Faro	cloudy	17
Frankfurt	fair	-1
Geneva	cloudy	7
Gibraltar	shower	16
Glasgow	sleet	2
Hamburg	fair	-2
Helsinki	cloudy	-2
Hong Kong	fair	21
Honolulu	cloudy	26
Istanbul	fair	11
Jersey	cloudy	9
Karachi	sun	33
Kuwait	sun	27
L. Angeles	sun	19
Las Palmas	shower	22
Lima	cloudy	21
Lisbon	fair	13
London	fair	2
Lux.bourg	fair	0
Lyon	cloudy	9
Madeira	shower	19
Madrid	shower	11
Majorca	shower	16
Malta	shower	20
Manchester	snow	1
Manila	shower	32
Melbourne	fair	19
Mexico City	fair	20
Miami	shower	27
Milan	fair	5
Montreal	snow	-1
Moscow	sun	-8
Munich	fair	1
Nairobi	fair	22
Naples	shower	16
Nassau	cloudy	28
New York	fair	15
Nice	shower	14
Nicosia	sun	23
Oslo	snow	0
Paris	fair	2
Perth	fair	25
Prague	fair	-3
Rangoon	fair	35
Reykjavik	rain	5
Rio	sun	30
Riyadh	fair	27
Rome	cloudy	18
S. Frsco	sun	13
Seoul	fair	-4
Singapore	shower	32
Stockholm	cloudy	1
Strasbourg	cloudy	1
Sydney	cloudy	22
Tangier	shower	17
Tel Aviv	sun	23
Tokyo	fair	13
Toronto	cloudy	5
Tunis	thund	17
Vancouver	sun	6
Venice	fair	8
Vienna	fair	1
Warsaw	cloudy	0
Washington	fair	18
Wellington	fair	14
Winnipeg	sun	-11
Zurich	cloudy	3

to proceed.
In the Ukraine. unable and Electricité de France,

FINANCIAL TIMES
COMPANIES & MARKETS

Wednesday November 24 1993

INSIDE

Power engineer books flat result

Asea Brown Boveri, the world's largest power engineering group, reported flat profits of $215m. Orders tumbled 24.3 per cent, and the group said only Asian markets were strong. Demand in continental Europe was still weakening and the economic recovery in North America was having only a small impact. Page 18

Big day for Volvo investor
The first of Volvo's major shareholders is expected to decide today whether it will back the Swedish group's controversial plans to merge its car and truck operations with state-owned Renault of France. Page 19

Sotheby's chief to leave
Mr Michael Ainslie, president and chief executive of Sotheby's Holdings, is to leave the US-owned fine art saleroom in January. Page 20

Northern Foods sees price cuts Northern Foods, the UK dairy and food manufacturing company, forecast intensified competition and continued price-cutting by supermarkets. Page 22

Vodafone warns of downturn
Vodafone, the UK mobile communications group, reported interim pre-tax profits up 8.9 per cent but said high start-up costs for overseas licences were likely to depress profits for the next two years. Page 22

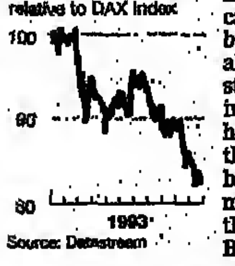
Ronson in lawsuit
Mr Gerald Ronson and his co-director of Heron International, Mr Alan Goldman, are two of 12 defendants named in an $88m lawsuit initiated by a US federal agency earlier this month. Page 22

Fears for Kwik Save
Kwik Save, one of the UK's cheapest supermarket chains, is facing fears that it may be one of the hardest hit by the latest supermarket price war. Page 22

Readicut surges
A continuing cost reduction and investment programme helped Readicut International lift interim profits by 12 per cent. Page 24

BTR sells US business
BTR, the industrial conglomerate, is selling Summers Group, a Texas-based electrical wholesale business, for up to $129m to Willcox & Gibbs, the US distribution and manufacturing group. Page 24

Chemicals grow, but too slowly



Source: Datastream

At first sight, the performance of European chemicals stocks this year has been impressive. But although all chemicals stocks have increased in value this year, most have underperformed their local markets. Hoechst has underperformed the market by 17 per cent this year, for example. Back Page

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				Apple	31⅛	-	1
Rises				Delta	57¼	-	1¼
Linotype-Hell	315	+	9.5	QVC	48¼	-	1
Porsche	770	+	9	**PARIS (FFr)**			
Falls				Rises			
[illegible]	823.5	-	11.2	Air Liquide	790	+	14
BASF	213	-	11	Peugeot	884	+	12
Bremer Vulk	218	-	10	Falls			
Preussag	412	-	11	Elf Aquitaine	416.7	-	15.8
NEW YORK ($)				Gaumont	700	-	10
Rises				Spie Batignolles	318	-	12
Intel	58¼	+	1¾	Roussel-Uclaf	590	-	10
Reynolds Metals	47¾	+	1				
Falls							
AMR	65⅞	-	2¼				

Tokyo closed. New York prices at 12.30.

LONDON (Pence)				Benhaim	323	-	19
Rises				Bluebird Toys	540	-	28
Amber Ind	600	+	35	Bodycote	256	-	25
Amstrad	44½	+	2½	Cowie	121	-	12
First Leisure	245	+	11	Euro Disney	380	-	22
Harrisons	48½	+	2½	Forward Grp	229	-	12
NSM	181	+	12	Hazlewood Fds	152	-	8
P&O Dfd	572	+	12	Menvier (J)	558	-	13
Rugby	264	+	10	Shopfair	148	-	5
Strategem	118	+	9	Thorn EMI	914	-	35
Tex Hldgs	60	+	4	Vedan	433	-	13
Tipbook	70	+	5	Vosper Thorn	830	-	18
Falls							
Applied Holo	65	-	5				
Assoco	115	-	5				

Oil price prompts Elf warning

By John Ridding in Paris

Elf Aquitaine, the French oil group scheduled to be the first big privatisation of next year, yesterday warned that 1993 profits would fall to little more than FFr1bn ($169m) compared with the FFr6.2bn achieved last year.

Mr Philippe Jaffré, who took over as chairman in August, blamed the decline on the fall in the oil price, depressed trading conditions, provisions against stakes in other companies and exceptional charges for restructuring.

He outlined a strategy of cutting costs, limiting capital expenditure and selling non-core assets to reduce financial charges and improve profitability. Shares in Elf fell by FFr15.8 to FFr416.7 following the announcement.

Most industry observers in Paris, however, said the forecast 20 per cent decline in operating profits was largely in line with expectations. The planned exceptional costs reflected Mr Jaffré's desire to clear the decks for privatisation.

"He is getting the bad news out of the way," said one analyst. "By taking these losses now Elf is enhancing its recovery prospects for 1994 and 1995."

Mr Jaffré emphasised the strength of the group's core operations and the resilience of its cashflow, and said the dividend would be maintained at FFr13 per share.

Most of the blame for the downturn in profits was placed on the effects of depressed demand in Europe and the weak oil price. The decline in the oil price is estimated to have cost the group FFr1bn in net profits.

"Our core business is in Europe and we are being affected by recession" said Mr Jaffré. He added that recovery would be gradual, and that the group's chemicals operations would probably suffer a loss this year.

Exceptional charges, which are expected to reduce net income by about FFr2.2bn for the year, include costs for restructuring, principally in the chemicals operations. Provisions will also be taken against the reduced value of some of Elf's shareholdings in other companies.

Elf Sanofi, the group's pharmaceuticals subsidiary, also issued a profits warning. It said net profits this year would be about FFr800m after exceptional charges of FFr350m. Last year, the pharmaceuticals company's net profits were FFr1.05bn.

Clean slate, Page 19

US drugs group in charge for cuts

By Paul Abrahams in London

Warner-Lambert, the US pharmaceuticals and consumer products group, yesterday announced a $468m restructuring charge for the latest of a series of rationalisations in the pharmaceuticals industry.

The company, the US's 14th largest drugs group, blamed the need for the charge on the profound changes in the pharmaceuticals market. It mentioned in particular the growth of managed care in the US, the partial loss of tax credits from manufacturing in Puerto Rico, and healthcare reforms in Europe.

The group is using the charge to close seven manufacturing sites, streamline its salesforce of 1,300 people, and restructure Parke Davis, its pharmaceuticals division. It said resources would be focused on its new Alzheimer's drug Cognex. The restructuring would reduce the workforce by about 2,800 over the coming years, said the company.

Mr Melvin Goodes, chief executive, said the company would continue to strengthen its consumer operations through productivity improvements. The charge of $468m is on a pre-tax basis. On a post-tax basis it amounts to $327m, or $2.43 a share. It will be taken against fourth-quarter earnings.

Research and development spending in the pharmaceuticals division is running at about 20 per cent of sales as the group struggles to bring new products to market.

The drugs operations, generating sales of about $2bn a year, have been suffering from the expiry in January of the US patents of Lopid, its top-selling cholesterol-lowering drug which had sales last year of $556m. Revenues from Cognex were held up by the drug's late US approval in September.

Warner-Lambert also lost $150m of sales this year because it was forced to shut six manufacturing plants in the US following concerns expressed by the Food and Drug Administration.

The company has been seeking to strengthen its position in recent months through a series of alliances and acquisitions. In July it announced it was setting up an over-the-counter medicines venture with Wellcome which will also market an OTC version of Glaxo's Zantac. The group is still looking for an OTC pharmaceuticals acquisition in Germany.

Delta clips its wings for the sake of profit

By Paul Betts, Aerospace Correspondent

Delta Air Lines has put on hold ambitious plans to expand its Asia-Pacific operations in order to concentrate on returning to sustained profitability, Mr Ron Allen, chairman, said yesterday.

The airline – the third largest in the US – is consolidating its route structure and considering setting up a low-cost domestic subsidiary.

Its route review will initially involve its loss-making north Atlantic operations. "We are looking at every route very critically and if they are not profitable we will reallocate equipment and resources," Mr Allen explained.

The second phase could involve setting up a low-cost domestic US airline to compete against smaller carriers. United Airlines is considering a similar move.

Mr Allen said Delta was continuing to seek partnerships with other international carriers to reinforce its worldwide network. It has cross shareholdings with Singapore Airlines and Swissair – a relationship which it says has not been weakened by the collapse of the Alcazar alliance plan in Europe. Delta is also understood to be in discussions with Virgin Atlantic to form a commercial alliance.

Delta's prospects on the highly competitive transatlantic routes hinge on the US securing a new open skies agreement with the UK. The UK last week threatened to limit the number of US airline services to London's Heathrow airport in retaliation against US efforts to curtail British Airways' rights in the US market.

Mr Allen said the US government would consider not granting BA an extension of its ticket code-sharing agreement with USAir in March, unless the UK showed "more openness" towards US carriers. "Most US carriers believe in open skies but we can't keep giving away code sharing without getting reciprocal rights in the UK," he said.

He complained Delta suffered more than its two US rivals, American Airlines and United, because it had no rights to fly to Heathrow and continued to be restricted to London's Gatwick airport. "We have no rights to fly from the UK to other European points; no authority at Heathrow; we can't serve New York and our capacity is controlled."

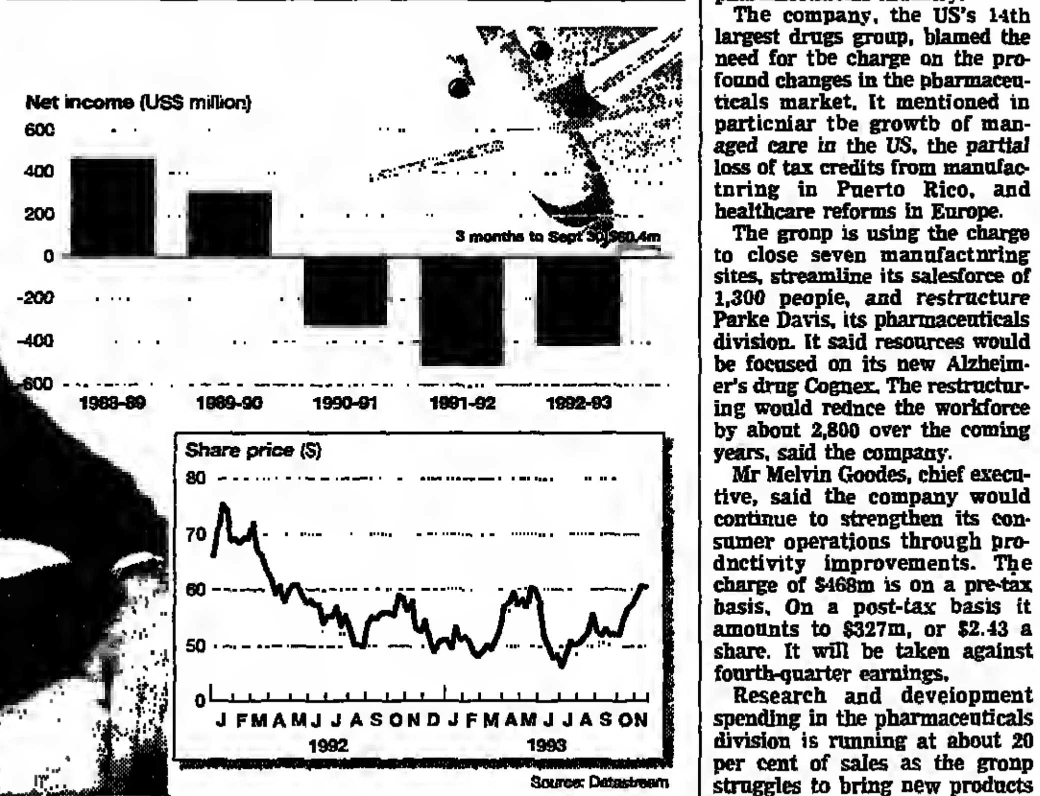
Delta recovered to a net profit of $60.4m in its first quarter to September 30. But Mr Allen said the second quarter was likely to be more difficult. Results would be affected by a $100m charge to cover an early retirement programme designed to produce annual savings of $63m-$70m.

Overall, Delta had shed 7,000 jobs – nearly 9 per cent of staff – since June 1992 when it launched its cost-cutting programme to produce annual profit improvements of $700m by 1995. By the end of June, the airline had achieved $400m of the target, Mr Allen said.

"We've quit borrowing and paid back some $250m of debt in the last quarter," he said. "We are also starting again to cover capital expenditure with internally generated funds. This makes me feel much better than this time last year."


Ronald Allen
Chairman and chief executive

Delta Air Lines



Source: Datastream

Defence business quietens music at Thorn

By Michael Skapinker, Leisure Industries Correspondent

Thorn EMI yesterday announced half-year pre-tax profits of £105m ($156m), in line with expectations, but its shares fell 35p to 914p.

Investor dissatisfaction arose from a poor showing from the defence electronics business, which Thorn failed to sell to the General Electric Company earlier this year. An operating loss of £14.7m in the technology subsidiary, compared with a £1.4m loss last time, overshadowed strong performances from the main music and rental businesses. The technology subsidiary includes defence and commercial electronics activities and security.

The pre-tax figure for the six months to September 30, virtually unchanged from £105.2m last time, included exceptional costs of £10m, most of which arose from the sale of Thorn lighting and of Thames Television. Total turnover was up slightly to £2.1bn from £1.9bn.

Some investors were upset at the group's conservative dividend policy. The interim payout was a maintained 9p on earnings per share of 13.8p, against 16.6p. The group said the final dividend would be increased at least in line with inflation.

Mr Bruce Jones, an analyst at Smith New Court, said: "The defence business let the side down. People expected the loss to be a lot smaller."

Operating profits at EMI Music grew 48.3 per cent to £89.9m, aided by a strong performance from Virgin, which Thorn purchased from Mr Richard Branson last year.

Rental operating profits were up 17.7 per cent to £52.6m. Sir Colin said the group was confident it had the right procedures in place to deal with any malpractice at Rent-A-Center, its US rental subsidiary. He said that Mr Warren Rudman, the former US Senator investigating newspaper allegations of unorthodox money collection at the subsidiary, would recommend ways in which the procedures could be strengthened.

Lex, Page 16

Barry Riley

The vexed question of fund measurement

The dogged resistance of British actuaries to the hegemony of the American financial theorists continued this week with the publication of a paper on the measurement of portfolio managers' skills.

"Disciples of modern portfolio theory have confused risk with volatility or variability," says the paper by Nick Day, Sos Green and Jack Plymen. The three prefer a quite different concept which they dub "embedded risk" and which they define as the risk that shares deliver investment returns which are lower than expected.

The arguments have gone on for a long time. Two or three years ago one of the founding fathers of MPT, Harry Markowitz, who produced his original thesis in 1952, and his classic book *Portfolio Selection* in 1959, was brave enough to attend a debate at the Faculty of Actuaries in Edinburgh. He was courteous, but declined to agree that he should redraft his theory which used the variance of the mean as a measure of the risk.

It all depends, of course, on what you are trying to achieve. Americans are much more impressed by the importance and the validity of short-term market values, which explains why they are so obsessed with the quality of financial reporting, with control of insider trading and so on.

Outside America many investment practitioners believe that market values are too volatile and unreliable to form the basis for long-term decisions.

British actuaries, for instance, hava developed concepts of smoothed market values. When they assess the solvency of life assurance companies or pension schemes they value the assets and liabilities on a long-term basis.

Hence their lack of comprehension of the US approach. Short-term price volatility has no place in the valuation basis of UK pension funds. For the same reason, the idea that treasury bills are somehow "riskless" assets seems bizarre. Their short-term volatility of returns may be negligible but they certainly do not amount to a riskless way of financing salary-linked pension liabilities.

Americans are impressed by short-term market values

But how on earth can you assess whether some shares will achieve targeted returns with more certainty than others? According to MPT, when markets are efficient it is impossible to achieve excess returns through stockpicking.

Yet even the American academics have moved away to an increasing extent from extreme views about market efficiency. The academic debate these days is more about the degree to which inefficiency exists and can be exploited. Management techniques in an efficient market should differ from those where inefficiency exists to a significant degree.

The three actuaries, however, go much further. They say: "With the enormously improved statistical background and the increased power of computerised analysis we suggest that it is now possible to find shares that are exceptionally cheap and liable to outperform the market over a reasonable period."

This is a controversial claim. The power of computers can work both ways: you can argue that the more numbers are being crunched the more efficient the market's pricing ought to be. The authors' proof comes down to the performance of two equity funds, one the small portfolio of a professional society and the other the much larger fund of a Perpetual unit trust, the American Growth Fund. Both were monitored for a year, and the first outperformed its benchmark slightly, the second by a handsome margin.

The authors admit that two portfolios tracked over one year have no statistical significance. The Perpetual fund does not appear to be a very suitable example because turnover during the year was more than 100 per cent; presumably the managers were very good at spotting short-term trading opportunities, but has this much to do with the risk that shares will fail to meet long-term targets?

Surely fund performance should be tracked at least over the full course of a market cycle, including both bull and bear markets, before the portfolio managers' risks and skills can be properly assessed.

British actuaries can be guilty of short-termism after all.

US banks renew assault on Germany

A driving force in this second invasion is Goldman Sachs. David Waller reports

In the 1970s and early 1980s a wave of US commercial banks invaded Germany amid a fanfare of publicity. Many left again soon afterwards having failed to penetrate the German banking market, leaving German businessmen unimpressed by the American "talk first, action later" style of banking.

This time, the invaders are the US investment banks, eager to capitalise on the perceived sleepiness of the German financial services sector. But this time, the investment banks argue, they are here to stay.

"We have extraordinarily long-time horizons," says Mr Phil Murphy, one of the two Frankfurt-based partners in Goldman Sachs. "We are in this for 50 to 100 years."

Goldman is the most aggressive and newest of the arrivals in Germany. Since it established its Frankfurt office in 1990 – until then it serviced its German clients out of London – staff have gone from zero to 120, doubling in the past year alone.

The firm has recently taken a second floor in the Messeturm skyscraper and has won high-profile mandates. For example, advising Daimler-Benz on its mould-breaking listing on the New York Stock Exchange. "We were late on the ground, but now we have our foot on the gas pedal more than anyone else," Mr Murphy says.

The London office – founded in 1968 and employing 1,300 people – remains Goldman's European headquarters. But Frankfurt is one of the firm's two fastest growing offices in the world, the other being Hong Kong.

"Our experience here shows you do not need GDP growth of 10 per cent a year [as in the thriving Hong Kong/south China region, in contrast to the recession-struck German economy] to run a successful investment banking operation," Mr Murphy enthuses.

"We are extremely bullish about this market, across all divisions."

The bullishness, shared by other US investment banks who set up German operations in the mid to late 1980s, reflects several fundamental factors:

● An increased willingness on the part of German companies to appoint financial advisers, and foreign ones at that.

"The facts of life have changed for German corporates," says Mr Murphy.

"The severity of the downturn is confronting them with new problems . . . people are seeking out new ideas and solutions."

Investment banks have advised on high-profile transactions – CS First Boston, for example, advised Krupp on its hostile acquisition of steel-rival Hoesch last year. Morgan Stanley advised Schering on the sale of its industrial chemicals operations to Witco of the US.

A host of foreign advisers was involved in the complex transaction whereby Crédit Lyonnais of France acquired control of the BfG Bank from the Aachener und Münchener Beteiligungs insurance group.

● The capital markets are opening up.

Foreign, largely US investment banks are winning mandates once the preserve of the big German banks. This is true for corporate cash-raising exercises – foreign banks muscled in as co-lead managers to big issues from Veba and Allianz this year – and for governments and para-statal organisations in the international bond markets.

Salomon Brothers was co-lead manager to the World Bank's first D-Mark global bond. US investment banks have sole or joint lead managers of recent D-Mark Eurobonds from Belgium, Sweden and Argentina. Goldman was sole lead manager to a DM1bn ($588m) Eurobond issue from the Südwestdeutsche Landesbank, the state bank for the Land of Baden-Württemberg.

This opening up – on the domestic side at least – is driven by growing competition for capital in Germany.

The costs of reunification have ensured that Germany has swung from being an exporter to an importer of capital. With the bulk of domestic savings due to be absorbed by government borrowings, the source of capital at the margin is the foreign investor. However, mighty institutions such as Deutsche and Dresdner Bank are in the domestic market but they do not have the placing power of the international investment banks.

● Germany has taken convincing, albeit belated steps to enhance the attractions of Finanzplatz Deutschland, Germany as a financial centre.

One example is the second Financial Markets Promotion Law, approved by the German cabinet this month and to be enacted next year. This will make insider dealing illegal and create a regulatory framework for securities dealing.

"The move to outlaw insider dealing was a clear signal that Germany was serious about the development of its equity markets," said Mr Murphy.

Frankfurt has worked hard on developing dealing and settlement technology which makes securities trading more congenial for international investment banks.

If technology and regulatory reform have helped woo the US investment banking community to Frankfurt, the buoyancy of German securities and currency markets has provided them with more tangible rewards.

The bund market has risen spectacularly since the summer of 1992. The DAX index of 30 leading shares is up by nearly 30 per cent since the beginning of the year and currency and derivatives markets are in a frenzy. All of which has provided banks in Germany with bumper trading profits this year.

Sceptics ask whether Goldman Sachs' commitment to the market place will falter once the markets retreat to more sluggish turnover levels. Scepticism is compounded by Goldman's aggressive approach which some argue is a symptom of deeper cultural differences between the Anglo-American approach to business and the consensus-oriented way in which corporate Germany operates

Sceptics ask whether Goldman's commitment to the market place will falter once sluggish turnover levels return. Scepticism is compounded by Goldman's aggressive approach which some argue is a symptom of cultural differences between the Anglo-American approach to business and the consensus-oriented way in which corporate Germany operates.

Criticism focuses on Daimler's full listing in the US, on which Goldman advised. The move shattered the consensus under which German companies agreed among themselves not to give into the Security & Exchange Commission's requirement for greater financial disclosure.

Daimler and Goldman are adamant other German companies will follow suit, but as yet there is no evidence of this.

Volkswagen has pointedly chosen to raise money in the US via the US corporate bond market, saying it was not willing to make the disclosure associated with a full SEC-approved listing for its shares.

"Every country has its unwritten ground rules, and you can't ignore them," comments the chief executive of a publicity-shy investment bank.

The remark was directed at Goldman Sachs, but Mr Murphy is adamant that the bank is in Germany to stay – and that the rules of the game have changed.

GM sells three more component plants

By Richard Waters in New York

General Motors continued its disposal of automotive component businesses with the sale of three plants to a newly-formed company in which it will hold a 20 per cent interest.

The plants to be sold make starter motors and generators and employ 2,200 workers.

Transportation Systems, a company whose investers include Citicorp Venture Capital and Mr Harold Sperlich, former Chrysler president, will take 80 per cent of the joint venture company set up to acquire the business.

The disposal, the value of which was not disclosed, marks the latest step in GM's divestment of component businesses.

It has now sold six of the 14 businesses that it last year said were for sale.

The businesses that are being sold are part of GM's Delco Remy division, which the company said would continue to produce a wide range of components as part of the group.

In September, GM agreed to sell an 80 per cent stake in its wiper systems and actuators business to a venture formed with ITT's automotive unit for $400m.

That month it also said it would sell its rear-drive axle drive shaft and related forging operations to American Axle & Manufacturing, a new company formed by former Chrysler executives.

ABB posts flat profits at $215m in third quarter

By Ian Rodger in Zurich

ABB Asea Brown Boveri, the world's largest power engineering group, reported flat profits of $215m before tax and non-recurring items for the third quarter.

Incoming orders tumbled 24.3 per cent to $5.8bn in the quarter, although much of the decline was attributable to currency effects.

The group said only Asian markets were strong. Demand in continental Europe was still weakening and the economic recovery in North America was having only a small positive impact on order intake.

Exports from Scandinavia were increasing and the UK market seemed "poised for some growth". Last month, a UK subsidiary of ABB won a £150m ($224m) contract to build and lease rolling stock to Network SouthEast, part of the UK rail network.

ABB is maintaining its forecast that profits before tax and non-recurring items in the full year will be at about last year's level of $1.11bn.

However, it signalled that net income would be lower, largely because of a $500m restructuring provision announced in August and the resultant higher tax rate.

Non-recurring items ballooned in the third quarter to $151m from $30m, as about 30 per cent of the provision was booked.

Third-quarter revenues were down 7.5 per cent to $6.7bn, but operating earnings jumped 33.5 per cent to $482m. ABB adjusts revenues upwards and financial income downwards as a way of attributing to its divisions the interest earned from cash advances from customers.

When, as in the third quarter, this process makes operating profits grow more quickly than pre-tax profits, it means that invoicing on projects from which the group has cash advances has been brisk.

For the nine months, profits before taxes and non-recurring items were down 1 per cent to $722m, but up 15 per cent in local currencies. The power plant, financial services and transportation segments improved earnings.

Revenues were down 6 per cent to $19.8bn, but up 4 per cent in local currencies. Order intake, down 15 per cent to $20.3bn, was down only 6 per cent in local currencies.

● Holderbank, the Swiss cement group, said it had placed 200,000 bearer shares from its treasury with Union Bank of Switzerland.

Bank of Montreal continues record run

By Bernard Simon in Toronto

Bank of Montreal, Canada's third biggest bank, has posted its fourth consecutive year of record earnings, thanks to a 7 per cent rise in interest income, and growth in fee-based services and securities trading. Kicking off the Canadian banks' annual earnings season yesterday, it said net income rose to C$709m (US$545m), or C$2.59 a share, in the fiscal year to October 31, from C$640m, or C$2.38 a year earlier. Fourth-quarter earnings climbed to C$201m, or 74 cents, from C$160m, or 59 cents.

Return on equity for the year was unchanged at 14.1 per cent, but rose in the fourth quarter to 15.4 per cent from 13.4 per cent.

Revenues benefited from the receipt of C$106m in overdue interest from Brazil during the year, including C$30m in the fourth quarter. The bank also ascribed the rise in interest income to strong growth in residential mortgages and loans to smaller businesses.

Year-end assets grew by 7.2 per cent to C$116.9m. The fourth-quarter return on assets improved to 0.70 per cent from 0.59 per cent. Non-interest income advanced by 20 per cent in the fourth quarter, including a 53 per cent jump in earnings from investment and securities business.

The bank said the quality of its assets was essentially stable. Bad-debt provisions totalled C$675m last year, against C$550m in 1992. The latter figure includes a C$244m reverse of the general country risk provision.

Non-performing loans amounted to 2.9 per cent of total loans and acceptances on October 31, down from 3.1 per cent a year earlier.

The ratio of total capital to assets improved to 10.3 per cent (11.1 per cent based on US rules) from 8.9 per cent last year. This is well above guidelines set by the Bank for International Settlements.

BMO this year unveiled plans to capitalise more aggressively on its presence in the US, through Harris Bankcorp, its Chicago-based subsidiary.

Bayerische Landesbank Bulletin

MONEY AND CAPITAL MARKETS REPORT

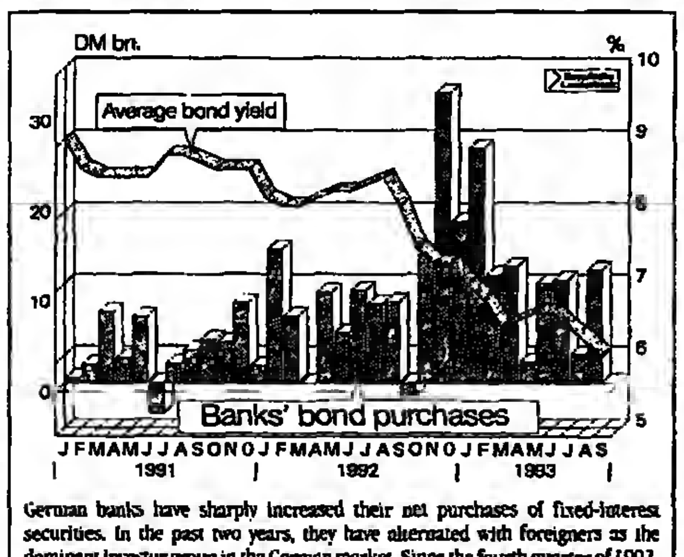
GERMAN BOND MARKET

STRIKING PARALLELS

A comparison of the present interest-rate cycle with previous ones reveals striking parallels: Excess liquidity is helping to nudge interest rates down.

Even after the latest cut in the key rates, hopes for a further fall in interest rates are still alive. While in the past such a constellation of rates-cyclical low of bond yields and a lowering of the key rates-had almost ioevitably triggered a setback in the bond market (at least a temporary one), there was hardly any reaction this time. Although the ten-year yield is at its lowest level in the past five-and-a-half years and only some 50 basis points above previous lows (e.g., 1978 and 1987), there is still room for a fall in the key interest rates and thus in the rates at the short end of the market.

At any rate, the fundamental situation in the late autumn of 1993 is such that oo early interest-rate reversal need be feared. After the swift decline in interest rates, however, mainly since the start of the currency turmoil in the EMS in the autumn of 1992, the question as to the remaining downside potential looms large. Interest rates have come a long way since the cyclical peak in the autumn of 1990, when ten-year bank bonds yielded 9.1 per cent, five-year bonds 9.15 per cent and time deposits as much as 9 ¾ per cent; the long-term yield is now almost one-third lower, and the yield on medium-term bonds and that at the short end of the market are down approx. two-fifths and one-third, respectively. A comparison with the previous interest-rate cycle shows the following picture: The rate for five-year securities dropped by some three-fifths between 1981 and 1987, the ten-year yield halved, and money-market rates in the summer of 1987 were down to a quarter of their 1981 level.



German banks have sharply increased their net purchases of fixed-interest securities. In the past two years, they have alternated with foreigners as the dominant investor group in the German market. Since the fourth quarter of 1992, banks have added DM155 billion worth of bonds, or more than two-fifths of total net purchases, to their portfolios. With the yield curve taking on its normal shape again, banks should remain buyers of fixed-rate securities. Their present holdings of bank bonds and public bonds come to more than DM 700 billion.

A comparison with previous interest-rate cycles reveals striking parallels: Similar to the situation at the time of the 1978 and 1987 interest-rate lows, ample liquidity has helped to nudge rates down, most of which came from foreign sources (including reinvestments of German capital by Luxembourg-based investment funds).

Another point worth mentioning: In 1978, the lowest nominal rates for five-year and ten-year public bonds were 5 per cent and 5 ½ per cent, respectively. In 1987, the yield on five-year special federal bonds, with a coupon of five per cent and an issue price of 100.80, fell to 4.82 per cent; ten-year federal bonds had a coupon of 5 ½ per cent. In the current cycle, special federal bonds yield 5.26 per cent and ten-year bonds return 5.88 per cent.

However, wheo trying to fathom the remaining potential for interest-rate cuts, one should not rely too much on past experience: instead, it would seem preferable to look at the factors determining the current trend. The following positives and negatives have to be taken into account:

● Inflatioo will continue to cool in 1994, so that there will hardly be any oeed to keep mooey tight oo this account. The rise in prices – in October the figure „three" reappeared before the decimal point for the first time – should slow down to a three-per-cent pace next spring.

● The demand for loans and capital will grow at a moderate pace in 1994. Housing construction and (probably) public-sector borrowing demand will oot be much higher than in 1993, though the latter will be noticeably above the average for the preceding years. The corporate sector's borrowing demand will probably diminish in 1994.

● The investment potential will again be sufficiently high next year to allow the demand for capital to be met without difficulty. If the D-mark remains strong, D-mark investments will continue to be favoured by foreign investors. The steady growth of household wealth can be expected to continue.

These positives tend to stabilise the bond market, while the negatives do not yet give cause for serious concern, though they may cause some irritatioo from time to time. The negatives are a possible reversal of US monetary policy and uncertainty regarding the future course of exchange rates.

Weighing the negatives against the positives, we see no likelihood of a drastic change in the direction of interest rates. The Bundesbank will continue the balancing act between external necessities and internal requirements it has already been successfully performing this year. This means a further reduction io money-market rates, which – if past cycles provide any clue – still have room for a fall of about 150 basis points.

To receive your complimentary copy, in English or German, of the latest issue of Bayerische Landesbank's Money and Capital Markets Report, just fill out the coupon below and enclose your business card or letterhead.

Bayerische Landesbank Girozentrale
Economics Department
D-80277 Munich

Please send me a complimentary copy of the latest issue of your Money and Capital Markets Report.

Name ____________ FT

Company ____________

Street ____________

City ____________

Country ____________

Please print

☐ English ☐ German

Bayerische Landesbank

Volvo awaits shareholder vote on Renault merger

By Hugh Carnegy in Stockholm

The first of Volvo's major shareholders is expected to decide today whether it will back the Swedish group's controversial plans to merge its car and truck operations with state-owned Renault of France.

The so-called Fifth Fund state pension group holds only 1.3 per cent of the voting capital in Volvo. However, a decision by its board is seen as a key indicator of whether new information published by Volvo on Monday has swung opinion among sceptical institutional shareholders in favour of the deal.

A decision is also expected tomorrow by the Fourth Fund state pension group which, with 7.5 per cent of the voting capital, is the second-largest shareholder in Volvo after Renault, which holds 10 per cent.

The pension funds are regarded by Volvo as core shareholders which must be won over if a secure majority is to be gained for the merger at the rescheduled shareholders meeting on December 7.

On Monday, Volvo said the French state had undertaken not to use a golden share it plans to hold in the merged Renault-Volvo company to force down Volvo's proposed 35 per cent holding in the new group.

Mr Edouard Balladur, the French prime minister, has also set a target of privatising Renault by the end of next year. Both issues are central to Swedish concerns about the merger.

Renault is also hosting a meeting of major Volvo shareholders in Paris today, in a further bid to win support for the deal.

Meanwhile, Volvo said yesterday a motion had been tabled by a single, unnamed shareholder for the December 7 meeting calling for the immediate sacking of Mr Pehr Gyllenhammar, Volvo chairman, if the merger is voted down.

● General Electric of the US has pulled out of the bidding for Gota Bank, a state-owned Swedish bank which the government plans to sell off by the end of the year, officials said yesterday.

GE was the only foreign bidder for the bank.

Knight gives up top post at Murdoch media group

By Raymond Snoddy in London

Mr Andrew Knight, once designated as Mr Rupert Murdoch's chosen successor in the event of emergency, has given up the executive chairmanship of News International.

The former editor of The Economist will in future only be chairman of the company that holds Mr Murdoch's UK interests.

Mr Gus Fischer, managing director of News International, will become chief executive.

News International, which has interests ranging from five national newspapers in the UK to a 50 per cent stake in British Sky Broadcasting, made it clear that the change of title would give Mr Fischer "executive oversight of News International".

As a result, the chairman would be free "to concentrate on the corporate interests of the company".

News International said yesterday the changes in title followed the changes in function that had, in effect, already happened.

Mr Fischer, who also remains chief operating officer of the main Murdoch corporate vehicle, News Corporation, will continue to run News International on a day-to-day basis.

Mr Knight will concentrate on relations with government and other companies, and with regulatory issues.

In 1990, Mr Murdoch said Mr Knight would be his successor until his children grew up "if I should turn out to be mortal".

The News Corp chairman and chief executive said last year nothing had changed "except that the children are older".

In October, Mr Murdoch said his wife Anna would act as non-executive chairman in an emergency, and there was no mention of Mr Knight.

The further elevation of Mr Fischer, a German-Swiss businessman who first Mr Murdoch in New York, embasises his growing role in helping to run the once-again expanding Murdoch empire.

Elf-Aquitaine wipes slate clean

Asset sales are central to plans for privatisation, writes John Ridding

Four months after taking his seat at the head of Elf-Aquitaine, and with privatisation looming, Mr Philippe Jaffré yesterday gave his prognosis.

France's largest industrial group will, he said, see net profits fall by about 80 per cent, to just over FFr1bn ($170m), this year. Recovery next year is likely to be slower than expected by most observers, as a result of the continued downturn in European markets, the weak oil price and the depressed chemicals sector.

In response, he outlined a strategy of cost-cutting, disposals and strict limits on capital expenditure.

Mr Jaffré's statement indicate a clean-up rather than a crisis. "He is providing for risks and preparing the group for privatisation," says Mr Vincent Bazi, head of research at Barings Securities in France. The government is due to sell its 50.8 per cent stake in the oil group early next year, and Mr Jaffré wants to be ready.

Yesterday's warnings show he is treading a familiar path. Both Banque Nationale de Paris, which was privatised last month, and Rhône-Poulenc, which is in the final stages of its sale, issued profits warnings before being offered to the public, and took steps to cleanse their operations. Part of the the reason, say analysts, is to constrain the share price ahead of the pricing of the issue.

At the operating level, Elf continues to perform reasonably well, given the recession in Europe and the weakness of the oil price. Operating income is expected to fall 20 per cent for the year as a whole, after a fall of 34 per cent in the first six months. Cash-flow, the most important indicator for oil companies, is expected to be about FFr24bn for the year, roughly the same level as last year.

Debt, however, is perceived as a problem. "What concerns me is the growth of financial charges," said Mr Jaffré, emphasising that his priority was to stabilise the group's debt-equity ratio by the middle of next year, and reduce it thereafter. At the end of June, gearing stood at about 37 per cent. It is forecast to rise to between 45 and 50 per cent by the end of the year.

The rise in borrowings is the legacy of his predecessors, notably Mr Loïk le Floch-Prigent, who pursued an ambitious policy of acquisitions and investments. At the end of June, group borrowings stood at FFr39.3bn.

"It has become a heavy burden," said Mr Jaffré. "At a time when our competitors are taking steps to reduce borrowings, so should we."

The target is to keep the debt-equity ratio below 50 per cent.

This is where the clean-up comes in. Elf plans to reduce its borrowings through a series of asset sales. This will involve the unravelling of many of the group's financial holdings in other businesses.

Mr Jaffré offered no specifics regarding the sales. However, he has plenty to choose from.

The company has an estimated FFr15bn tied up in numerous shareholdings in other groups, including Bidermann, the textiles group, Compagnie Financière de Suez, and Compagnie Générale des Eaux, the construction and communications group.

More immediate candidates for sale, however, are likely to be the FFr5bn or so of investments in non-listed companies accumulated over the past 20 years.

The sale of assets is not expected to affect the group's core businesses. This would appear to include Yves Saint Laurent, the cosmetics and luxury goods group, acquired controversially by Mr le Floch-Prigent. "I think it is still group strategy to build up its health and beauty business," said one analyst in Paris.

As for broader strategy, a stronger balance sheet should enable Elf to play its part in the government's privatisation programme.

Mr Jaffré described as "strategic" his company's relations with Union des Assurances de Paris, the insurance group, and Renault. His comments hinted at a new set of cross-shareholdings when the two companies follow Elf to the auction block.

Allied-Lyons reports 14% rise in profits at half time

By Philip Rawstorne in London

Allied-Lyons, the UK drinks, food and retailing group, reported a 14.6 per cent increase in first-half profits despite a lower-than-expected contribution from brewing.

Carlsberg-Tetley, tha brewing joint venture formed last December, got off to a tough start, facing heavy discounting by competitors in a UK market in which volumes were still affected by recession and by cross-Channel shopping.

Trading profits of £63m ($42.7m) were up to 20 per cent below market expectations. Beer sales dipped well below the overall 3 per cent decline for the industry, partly as a result of the reduction in the number of Allied's pubs, and market share fell 0.5 per cent to 17.5 per cent.

The results did not alter Allied's confidence in the long-term outlook. "We see brewing as a good long-term cash generator," said Mr Tony Hales, chief executive.

Its commitment to establishing Carlsberg-Tetley as a strong leading brewer was unaffected, he added. "But that task will not be helped if the Chancellor fails to deal with the impact of cross-border shopping. Latest estimates are that the current loss of duty and VAT revenue on drink is running at least at £340m."

Group pre-tax profits, excluding exceptionals, for the 28 weeks to September 18, rose from £267m to £306m, helped by a £10m gain from currency translation.

On an FRS3 basis, taxable profits increased from £234m to £285m, after an exceptional loss of £21m on the disposal of Chateau Latour, the Bordeaux vineyard. Earnings per share grew 5 per cent to 18.9p and the interim dividend is lifted to 7.3p.

Trading profit was 7.2 per cent ahead at £400m on turnover which rose from £2.57bn to £2.73bn. The Hiram Walker spirits division increased its profits contribution 3.4 per cent to £181m.

"Premium brand performance supports the view that spirits brands continue to have a bright future," said Mr Hales.

VME Group expects return to the black

By Andrew Baxter

VME Group, the big construction eqnipment producer owned by Volvo of Sweden and Clark Equipment of the US, will move back into profit this year after losing $94m in 1992, said Mr Tuve Johannesson, president and chief executive.

Mr Johannesson attributed the recovery partly to the devaluation of the Swedisb krone, but mainly to the restructuring of tbe group, which has reduced the workforce by 4,500 to just 6,500 over the past two years.

He was speaking on the eve of an announcement by VME and Japan's Hitachi Construction Machinery on an agreement to establish a joint venture in the rigid dumptruck business.

The two companies said in March they had signed a letter of intent to form the venture, which they see as a vehicle to strengthen their strategic positions in the construction and mining industries.

Today's announcement will disclose that VME will transfer its rigid dumptruck business to a new US-based company, Euclid-Hitachi Heavy Equipment.

Hitachi will take a "substantial minority stake" in the new company in two steps, starting with a 19.5 per cent holding to be implemented on December 31, a day before the new venture becomes operational.

The agreement goes further than was at first suggested. Hitachi will also distribute VME's Volvo BM articulated dumptrucks and large wbeel loaders in Japan. However, Mr Johannesson stressed that Hitachi and VME remained separate and were co-operating only in specific areas.

La Rinascente share price slide continues

By Haig Simonian in Milan

La Rinascente, the Italian stores group being sold indirectly by Fiat to the Ifil holding company, yesterday saw another sharp fall in its shares on the Milan stock market, accentuating Monday's 15 per cent drop.

Ifil shares slipped by almost 2 per cent, to L7,335, as more investors reacted to the news that Ifil's public tender offer for Rinascente stock had been three times subscribed.

Ifil, which is active in food production but has no retailing activities, announced in September it would bid for Rinascente, Italy's biggest stores group. The step came just as Fiat unveiled a big financial restructuring, including a rights issue and an offer to sell its 46.8 per cent stake in Rinascente to Fiat shareholders at L9,500 a share.

Fiat's proposal received only a lukewarm response from shareholders, who bought only about 40 per cent of the stock on offer.

The remainder of Fiat's stake in Rinascente's ordinary sbare capital went to the banks underwriting the transaction.

By contrast, Ifil's subsequent offer to buy Rinascente shares at L12,500 each provoked a massive response. However, the terms were deliberately limited to 33 per cent of the retailer's ordinary shares to avoid triggering a full takeover bid under Italian stock market rules.

As a result, surplus stock in Rinascente has been flooding the market, coming either from the banks which underwrote Fiat's sale or disgruntled private investors seeking to get the best price for their shares.

VW to finalise Skoda finance package

Volkswagen, the German motor group, is expected to finalise revised long-term financial plans for Skoda Auto, the Czech carmaker, within the next week, Renter reports from Prague.

Skoda said it would visit Volkswagen headquarters in Germany within the next few days to finalise the package. A public announcement was expected soon after the completion of the plan.

VW said in September it would restructure its financial package for Skoda, after abruptly cancelling an $870m loan. Volkswagen took a 31 per cent share in Skoda when the Czech carmaker was privatised in 1991. VW said then it planned up to DM9bn ($5.29bn) in capital expansion by the turn of the century, while increasing its stake in Skoda to 70 per cent.

Indian steel group ahead 18% after six months

By Kunal Bose in New Delhi

The Steel Authority of India (Sail), the country's largest steel producer, lifted net profit 18 per cent to Rs630m ($20m) for the six months to the end of September due to increased sales and cost-cutting.

Sail's performance contrasts sharply with that of Tata Iron and Steel, the country's second largest steelmaker, which recently reported a sharp fall in profit.

Sail, a state-controlled enterprise in which the government has sold a 10.52 per cent stake to private shareholders, stands out as among the most efficient of India's large state-owned industrial anterprises. Its managers have taken advantages of the changes brought about by the liberalisation of India's economy in the past two years, whereas Tata Steel's financial performance has suffered from management upheavals and from the cost of a large modernisation programme.

Sail's turnover in the period rose 12 per cent to Rs50.63bn. Production of steel rose 6 per cent to 4m tonnes in the half-year.

Mr M. R. R. Nair, chairman, said the product mix had been changed to suit market conditions. The improved performance came in spite of the stagnation in the market, and was attributed by Mr Nair to "all-round improvement in productivity and reduction in costs. The energy consumption per tonne of steel produced has been brought down significantly."

Exports rose almost fourfold to Rs3.21bn.

Powerful position for Hopewell

Simon Holberton on a flotation offering exposure to Chinese electricity

Hopewell Holdings, the Hong Kong property and infrastructure conglomerate controlled by Mr Gordon Wu, yesterday brought its electric power assets to the Hong Kong stock market in a capital raising initially worth nearly HK$11bn (US$1.4bn).

The deal offers investors the chance to participate in China's expanding electricity indnstry. For Hopewell, it means a profit of nearly HK$1.2bn on its investments in electric power, and the transfer of about HK$390m of debt from its balance sheet to that of Consolidated Electric Power Asia (CEPA), the subsidiary to be floated.

Today, Hopewell offers Hong Kong investors 93.6m CEPA shares at HK$12.50 each. The company's financial advisers, Peregrine Capital and Wardley, said yesterday that 381.4m shares at HK$12.50 each had been placed with international investors. In total, Hopewell will raise some HK$6bn through the flotation and placements.

In the words of one of CEPA's advisers, the float is "not the most straightforward of offerings". Hopewell has subscribed to 475m shares in CEPA at HK$10 a share, and is selling these to investors at HK$12.50 each.

Hopewell will also subscribe to 800m shares at HK$10 each. Half of this is payable now and the remainder in two equal instalments on successive anniversaries of CEPA's December 6 listing. On full payment of the partly paid shares, Hopewell's interest will rise to 62.8 per cent.

CEPA comes to market with one of the most demanding valuations ever seen in the colony. The offer price represents a prospective price to earnings ratio of about 40 times forecast 1994 earnings of HK$208m, and a 32.4 per cent premium over net tangible assets of HK$9.44 a share.

However, analysts said the small size of the public offering combined with demand for CEPA shares should ensure that its shares perform well initially. In the longer term, the company's fortunes will depend on the extent to which Mr Wu can replicate past successes in building and operating power stations in China and the Philippines.

Ashley Ashwood

Gordon Wu: buyers are gambling on his skills and China's future

Indeed, CEPA is almost a pure "concept" stock and a gamble not only on Mr Wu's business skills but on China's future. As Mr Eamonn McManus, director of corporate finance at Wardley, one of the company's financial advisers, said yesterday: "People are investing in an energy fund; they are buying Gordon Wu's expertise and track record."

Valuing the company is difficult and highly subjective, said Mr Archie Hart, director of research at Crosby Securities, a local brokerage. "The value of this company is in a lot of deals yet to be made. What is the real value of this company? I don't know."

The balance investors have to strike is between China and, more broadly, Asia's demand for electric power and the likelihood that "letters of intent" and "preliminary discussions" which CEPA has with provincial mainland authorities will materialise into contracts.

China's demand for power and its desire to develop rapidly its generating capacity is a matter of record. Annual electricity consumption per head was just 562kW in 1991, against 4,418kW in Hong Kong and 11,833kW in the US. China wants to add between 10,000 and 15,000 megawatts of capacity each year until the end of the century.

CEPA believes it is well placed to build some of this extra capacity. According to its prospectus, CEPA has a "preliminary agreement" to install 1,320MW of power generating capacity in Guangxi province; "letters of intent" to install 6,600MW of power in Jiangsu, Henan and Shandong provinces; and has had "preliminary discussions" with two localities to install up to 3,900MW of capacity.

Mr Stewart Elliot, CEPA chief executive, indicated yesterday that up to 14 other deals on the Chinese mainland were being discussed when he said that CEPA has 20 letters of intent from various provinces. But he agreed that investors were buying CEPA on the basis of its future prospects.

He said, however, there was "absolutely no doubt" in his mind that the projects referred to in the company's prospectus would materialise. After the CEPA float, "negotiations to formal contracts will come very shortly," Mr Elliot said.

Hopewell has demonstrated its ability to build large power stations below budget and ahead of schedule. Currently under construction are Shajiao-C in Guangdong - a 3x600MW coal-fired station - and Pagbilao in the Philippines, which is a 2x367.5MW unit. Together with other projects in the Philippines and China, these constitute the company's assets.

When they are constructed, CEPA will have generating capacity of 4,000MW, making it one-and-a-half times the size of Hongkong Electric and two-thirds the size of China Light & Power. Mr Elliot says the company's strategic aim is to become the "principal independent supplier of power in Asia for the foreseeable future."

Part of this entails becoming a retailer of off-the-shelf power stations. CEPA, Mr Elliot claims, is close to achieving what every first world power utility would like to do: standardise its product. Savings from standardisation would amount to between 15 per cent and 20 per cent of the cost of generation equipment, he said.

Macquarie Bank turns in 17% rise with equities division boost

By Nikki Tait in Sydney

Macquarie Bank, the Sydney-based institution in which Hill Samuel holds a minority stake, yesterday reported profits after tax of A$31.2m (US$20.6m) in the six months to end-September, a 17.4 per cent improvement over the same period of 1992.

Mr Allan Moss, managing director, said the performance of all the group's main activities had been "above budget". Macquarie does not break down results by division, but the bank added that about one-third of group earnings came from fees, a similar amount from trading activities, and the final third from interest margins.

Tha bank, whose structure is closer to that of an investment bank, said that its equities division had a particularly buoyant first half, "well exceeding" the same six months in 1992. Macquarie Equities claimed the number one position in terms of market share on the Australian Stock Exchange in September and October, and the group's underwriting business also benefited from the surge in new issues.

Non-accrual loans were A$44m or 2.8 per cent of loan assets, compared to A$28.1m, while net losses on bad and doubtful loans totalled just A$0.58m, compared to A$1.03m. Total assets at the half-year were A$3.67bn, up by 15.9 per cent and the total capital adequacy ratio was 12.94 per cent.

● St George Bank, an Australian regional bank, yesterday reported an operating profit of A$82.8m (US$54.7m) after tax and abnormal or unusual items for the 16 months to September 30, *AP-DJ reports from Sydney*. St George said it would pay a dividend of 20 cents a share for tha six months to end-September, making a total of 50 cents for the 16 months.

Foschini posts 19% increase in profits

By Philip Gawith in Johannesburg

Foschini, the South African retail clothing and jewellery group, overcame difficult trading conditions to record a 19.5 per cent increase in pre-tax profits to R88.3m ($26.2m) in the six months to September, from R73.9m a year ago.

High productivity levels helped profit growth outstrip the 17.8 per cent increase in turnover compared to 1992 (no turnover figure supplied). Attributable income rose 37.4 per cent to R53.3m.

The company paid a R52.4m interim scrip dividend. Based on a share price of R68, shareholders will receive an allotment of one new ordinary 5 cents share for every 59 held.

With signs of an economic upturn, Mr Stanley Lewis, chairman, forecast "satisfactory profits and earnings growth" for the full year.

Mr Clive Hirschson, managing director, said all trading divisions had been satisfactory. The rate of store expansion has been stepped up with 15 new stores opened in October alone compared to 12 during the reporting period. Jewellery group Sterns, purchased in April, had been repositioned and was now well placed to make a profit contribution in the second half.

During the period two Foschini directors were appointed to the board of UK clothing retailar Etam, 36.4 per cent owned by Foschini associate, Oceana Investment Corporation.

Sotheby's chief to quit in January

By Antony Thorncroft

Mr Michael Ainslie, president and chief executive of Sotheby's Holdings, is to leave the US-owned fine art saleroom in January. He will be succeeded by Mrs Diana Brooks, presidant and chief executive of Sotheby's worldwide auction business.

Mr Ainslie, 50, joined Sotheby's in 1984 from the American National Trust. He said yesterday that he had always planned to stay for 10 years. Ha had told Sotheby's chairman and chief shareholder, Mr Alfred Taubman, last January that ha wished to resign, and in April Mrs Brooks, 43, took over the day-to-day running of the company.

Under Mr Ainslie, Sotheby's consolidated its position as an international auction house and the largest in its field. However, it was hit badly by the recession and this month announced a net loss for the first nine months of 1993 of $1.3m, although that was a slight improvement over 1992.

Mr Ainslie, a large shareholder in Sotheby's, will remain a director but expects to take another job. Mrs Brooks' executive role will be shared between three or four colleagues.

Canadian investment for French gas utility

By Robert Gibbens in Montreal

Gaz de France is injecting C$100m (US$75.2m) into Noverco, the holding company that controls Quabec's regulated natural gas distributor and several non-regulated businesses.

This gives the French utility 24 per cent of Noverco, which has been looking for a strategic partner for some time.

It becomes a partner in Noverco with Soquip, a Quebec government energy agency (38 per cent), the Caisse de Depôt (30 per cent), and Levesque Beaubien (8 per cent).

Noverco and Soquip control gas production in western Canada and the gas pipeline between Montreal and Quebec City. The Caisse de Depôt, with assets of nearly C$45bn, manages the Quebec public sector pension funds.

Gaz de France said its investment was part of its international expansion. The two groups have had technical partnerships for some time.

Noverco's gas distribution unit, Gaz Metropolitain, has a pipeline network covering more than 5,000 miles (8,000km) in Quebec and Vermont. It bought New England Gas last year and plans to become a significant force in tha north-eastern US. Its long-term strategy includes using tha St Lawrence Valley as a distribution hnb with direct pipeline connection to the Boston area.

For the year ended September 30, Gaz Metro had sales of more than C$1bn and profit of C$111.4m.

ASX urged to extend voting debate

By Nikki Tait

The Australian senate's joint statutory committee on corporations and securities has called on the Australian Stock Exchange to extend the deadline for submissions on differential voting rights until the end of February.

The issue has arisen in the context of a controversial plan by Mr Rupert Murdoch to issue News Corp shares with "super voting rights" on a pro rata basis to existing shareholders.

The ASX has asked the investment community to submit views on the principles underlying the scheme by November 29, and has indicated that it will make a decision on the issue before Christmas. However, Senator Michael Beahan, who chairs the committee as well as a recently-announced inquiry into the role of institutional investors, said the ASX procedure on the super shares matter was "not acceptable to the committee", and called for the longer timetable.

INTERNATIONAL CAPITAL MARKETS

Gilt prices volatile after surprise cut in base rate

By Sara Webb in London and Patrick Harverson in New York

The timing of yesterday's half-point cut in the base rate from 6 per cent to 5.5 per cent took the UK government bond market by surprise and sparked a sharp initial rally in the cash and futures markets.

After a volatile day, gilt prices ended between ¼ and ¾ point higher, with long-dated issues seeing the biggest gains, helped by the prospects of continued low inflation.

Dealers reported keen buying interest in the cash and futures markets after the rate cut announcement but prices later fell back. "Investors liked the news, but then they appeared to be pausing for breath as they tried to make up their minds about the longer-term implications and the Budget," said one dealer.

Expectations of a rate cut at the time of the Budget had been priced into the short end of the gilt market, although dealers said the cut had been expected slightly closer to the November 30 Budget.

Mr John Kendall, UK economist at Baring Sterling Bonds, noted there was "a lot of yield curve play – a lot of people are borrowing at the short end and buying the long end" of the gilt market because the gilt yield curve is positively sloped.

■ Italian government bonds suffered another substantial fall on panic selling by foreigners in the wake of the weekend municipal election results.

Following Monday's tumble of nearly two points, Italian debt prices lost a further two points yesterday but clawed back some of the losses to end about a point lower on the day, with dealers arguing that the market had been oversold.

The local electinns dealt a blow to Italy's establisbed political parties, and raised questions about the possible impact on the 1994 budget. Hnwever, yesterday the finance minister told reporters nothing had changed regarding the 1994 budget.

GOVERNMENT BONDS

Italy's ex-communist opposition yesterday guaranteed approval of the 1994 austerity budget by the end of the year, adding that the turmoil on financial markets after the weekend local polls was completely unjustified.

The BTP futures contract settled at 112.64 on Monday. It opened at 112.03 yesterday and dropped as low as 110.50 as investors rushed to sell their bond holdings, but later recovered to trade at around 111.50 by late afternoon.

Italian 10-year yield spreads over German bunds have widened to about 400 basis points, from around 300 basis points just over a week ago.

■ Spanish government bonds were dragged lower by the combination of turmoil in Italy, general weakness in the European bond markets, and threats of a general strike by some Spanish trade unions in protest et the government's propnsed labour market reforms.

Hopes of a ¼ point cut in Spanish interest rates were disappointed at the repo.

■ German government bonds closed lower, with dealers blaming the gloomy international background ratber than any domestic features.

Monday's disappointing October money supply figures, which showed M3 growing by a higher than expected 6.8 per cent, pushed back expectations of a Bundesbank easing.

However, dealers point out that hopes of a cut in key interest rates could be revived if the November cost of living data for the regions (due out this week) lead to a decline in the west German October's figure of 3.9 per cent. Some economists are predicting a November figure of 3.7 per cent.

Dealers noted some extension trades, from medium to long-dated bunds, but despite the switches the long end of the market still underperformed the five-year area.

■ US hond prices firmed across the board in light trading as dealers bet that the Federal Reserve would purchase notes and bonds outright in a coupon pass.

By midday the benchmark 30-year government bond was up $\frac{5}{32}$ at $98\frac{25}{32}$, yielding 6.224 per cent. At the short end, the two-year note was up $\frac{1}{32}$ at $100\frac{1}{32}$, to yield 4.217 per cent.

After Monday's losses, dealers were not surprised when the market staged a rally from the opening. Technical buying related to the price of the December Treasury hond futures contract was one reason for the early gains.

Another was rising hopes among dealers that the Fed would conduct a coupon pass during the day. Also, analysts said prices were helped by the expectation that today's Octoher durable goods data will prove weaker than estimated.

Emerging market investment rises

By Antonia Sharpe

International institutional investment in emerging stock markets has risen to 13 per cent of international funds this year from 10 per cent last year, according to a survey* published yesterday. This compares with only 2 per cent in 1989.

The survey also showed investor attention had shifted from leading Latin American and Pacific Rim markets to lesser-known markets in Africa, the Middle East and Europe. In 1990, only 7 per cent of respondents had holdings in Africa and the Middle East but this figure is now 50 per cent. Markets in southern and central Europe are now part of 85 per cent of portfolios, an increase of 20 per cent.

Thirty per cent of survey respondents have committed funds to Poland and 14 per cent have invested in Zimbabwe, the Czech Republic and Morocco. A handful of investors have entered Ghana, Botswana, Ecuador and Panama. They have also taken direct equity stakes in local companies in Papua New Guinea, which does not have a stock market as yet.

Survey respondents said that although investing in emerging markets had become "fashionable", several areas of practical concern remained in these high risk-high reward markets.

These included inadequate custody and settlement, bureaucratic regulatory environments and the lack of quality information. Venezuela, China, India and the Czech Republic were cited as the main markets where investors encountered these problems.

More than 40 institutional investors and several large pension fund advisers from North America, Europe and Japan took part in the survey.

* *Fifth annual emerging stock market survey conducted by Kleiman International Consultants, 6215 32nd Place NW, Washington DC 20015, USA.*

Nigerian par bonds rally

By Tracy Corrigan

Nigerian par bonds rallied strongly yesterday, regaining most of the ground they lost following last week's coup, despite growing concern over Nigeria's overall debt position.

The bonds rallied from 39 cents in the dollar at the start of the year to a high of 63 cents in October. Prices have held up surprisingly well in the face of renewed political turmoil and rebounded several points to 58¾ cents yesterday, on news of the appointment of a provisional ruling council.

"Given the uncertainty, the price does seem rather high, and the market could prove vulnerable to further shocks to confidence," said Mr Mark Evans of ING Bank. However, traders point out that the bonds cost Nigeria only $110m a year to service – only two days of its oil revenues.

Debut Eurodollar deal for Cable & Wireless

By Antonia Sharpe

Cable & Wireless, the UK telecommunications group which last week reported a 30 per cent increase in interim pre-tax profits to £509m ($750m), raised $400m yesterday through its first Eurodollar offering.

INTERNATIONAL BONDS

Demand was such that the unrated borrower achieved a yield spread of 73 basis points over US Treasuries on its 10-year Eurobonds, at the tighter end of the indicated range of 73–75 basis points.

The spread compared favourably with current spreads on other 10-year Eurodollar offerings launched recently by double A-rated UK companies.

Traders said that the yield spread on National Power's $300m offering of 10-year Eurobonds, which was launched last week, stood at 70 basis points yesterday while the spread on the $500m offering of 10-year Eurobonds issued by BAT Industries on November 9 stood at 80 basis points.

Mr Richard Wainright-Lee, director of corporate finance at C&W, said the company was taking advantage of favourable market conditions. The proceeds of the offering would be used to finance the development of the company's business activities in eastern Asia, Europe and the Caribbean.

However, he indicated that C&W was unlikely to return quickly to the Eurobond market because it was not under pressure to raise funds. "There is nn heavy need to borrow," he said.

Lead manager J.P. Morgan said around 20 per cent of the bonds were placed in Asia, 15 per cent in the Middle East, 15 per cent with US offshore accounts, 30 per cent in continental Europe and 20 per cent in the UK.

Elsewhere, Treasury Corp of Victoria injected badly-needed liquidity into the Australian dollar sector of the Eurobond market with its A$500m issue of global five-year bonds, its second Australian dollar global bond offering this year.

The bonds were priced to yield 12 basis points below the 12 per cent State Electricity Commission of Victoria's domestic bond due 1998. When they were freed to trade the spread remained intact.

Lead manager Merrill Lynch said that 60 per cent of the bonds were placed with US investors.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Cable & Wireless	400	6.50	98.57R	Dec.2003	0.375R	+73 (5¼%-03)	JP Morgan Securities
Gas Argentino(a)	130	7.25#	94.5283R	Dec.1998	1.125R	+361(5⅛%-98)	Chemical Inv./S.Montagu
Financiera Energetica Nacional	100	6.625#	99.72R	Dec.1996	0.625R	+215(4⅝%-96)	JP Morgan Securities
Empaques Ponderosa	50	8.75#	99.80R	Dec.1996	1.00R	+425(4⅝%-96)	Crd.Lyonnais Euro-Secs.
D-MARKS							
Unibanco	200	8.25	100.50	Jan.1997	1.80	-	Commerzbank
STERLING							
Healthcare Operators Gp 1(b)‡	135	(b)	99.87R	Nov.2021	0.25R	-	SG Warburg Securities
AUSTRALIAN DOLLARS							
Treasury Corp. of Victoria	500	6.50#	99.664R	Nov.1998	0.35R	-12 (c)	Merrill Lynch Intl.
SWISS FRANCS							
Bayerische Vereinsbank	100	4.00	102.00	Jan.1998	-	-	Bank von Ernst & Cie
Daimler-Benz Nth.America(d)+ϕ	100	2.50	99.875	Jan.2002	-	-	Deutsche Bank (Suisse)

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. +Private placement. ϕWith equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Additional rate of return linked to the profits of Metrogas (70% owned subsidiary) which ranges from zero to 2.6% of the face value of the bonds each year. Callable in 4 years at 99.2965%. Equal amortization in months 48 and 60. b) Class A notes. Issue is conditional on S&P AAA rating. Short 1st coupon. Callable on any interest payment date from Nov.1996 at par. Average life: 5.2 years. Class B notes offered separately. c) Spread is with State Electricity Commission of Victoria 12% domestic bond due Oct.1998. d) Denom.: SFr50,000 + 148 3-year warrants. 4 warrants entitle holder to 1 Daimler-Benz share at DM695.

Rothschild to manage derivatives funds

By Tracy Corrigan

LCF Edmond de Rothschild in London, which is currently involved in traditional broking and fund management businesses, has set up a new company which will manage funds in the growing managed derivatives market.

Edmond de Rothschild Derivative Fund Management plans to create a variety of funds emphasising the use of derivative instruments rather than securities, including managed futures, bedge, index-tracking and protected capital funds.

Its first fund, a geared futures fund investing in currencies, bonds and stock indices, will be launched in the next few weeks. It will be an off-shore fund, based in Luxembourg.

Mr Adam Parkin, Mr Robert Dawkins and Mr James Palmer have joined the new venture from John Govett & Co, which launched the UK's first authorised futures funds two years ago.

Mr Jonathon Hughes-Morgan is joining from Odey Asset Management, a hedge fund manager.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	10/02	120.6100	-0.160	6.86	6.88	6.53
Belgium		9.000	08/03	113.7700	-0.330	6.84	6.94	7.09
Canada *		7.500	12/03	104.0000	+0.200	6.94	6.75	6.78
Denmark		8.000	05/03	110.7000	-0.880	6.45	6.40	6.38
France	BTAN	8.500	05/98	109.1600	-0.260	6.37	6.09	6.11
[illegible]								

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	112.30	111.54	-1.10	112.32	110.45	95844	93269
Mar	112.30	111.68	-1.10	112.30	110.70	10646	17396
Jun		111.94	0			0	0

[illegible]

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue Nov 23	Day's change %	Mon Nov 22	Accrued interest	xd adj. ytd
1 Up to 5 years (25)	129.41	+0.05	129.34	2.12	10.03
2 5-15 years (21)	157.71	+0.03	157.68	2.32	11.56
3 Over 15 years (9)	179.70	+0.13	179.46	3.08	10.04
4 Irredeemables (6)	209.83	-0.24	210.35	0.94	13.47
5 All stocks (61)	153.16	+0.05	153.08	2.39	10.93

[illegible]

FT FIXED INTEREST INDICES

[illegible]

GILT EDGED ACTIVITY INDICES

[illegible]

BOND FUTURES AND OPTIONS

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

[illegible]

UK GILTS PRICES

[illegible]

Profits held back as intensified competition and continued price-cutting are forecast

Northern Foods rises 5% to £72.1m

By Guy de Jonquières, Consumer Industries Editor

Northern Foods, the dairy and food manufacturing company, yesterday forecast intensified competition and continued price-cutting by supermarkets after reporting a 5 per cent rise in pre-tax profits to £72.1m in the six months to the end of September.

Northern said its performance had suffered from much faster than expected growth in liquid milk sales to supermarkets, at the expense of more profitable doorstep deliveries, and from the continuing decline of small high street shops.

Mr Christopher Haskins, chairman, said Northern had successfully resisted pressure to cut its prices to supermarkets and hoped to secure a modest price rise in May. However, market conditions had obliged it to accelerate cost-cutting plans.

He said discounting and reductions in product quality caused by competition in the retail trade were unsustainable in the long run.

They risked damaging supermarkets' brand image, while suppliers which competed purely on low profits would be unable to make satisfactory returns.

Northern was determined to maintain a high level of product quality and to continue to compete on innovation, service and value, not on low price.

The increase in the first-half figures, which compare with £68.4m a year ago, equalled almost exactly a drop in interest charges, and reflected mixed operating results. Sales rose by 3.5 per cent from £969.9m to £1bn.

Operating profit of the dairy division edged up to £40m (£39.7m) – the first time Mr Haskins could remember when the performance of the business had stagnated.

Sales increased by 4 per cent to £477.3m (£457.1m), reflecting a surge in liquid milk sales to supermarkets, which carry a lower margin. Doorstep delivery volumes, excluding acquisitions, fell by 11 per cent.

The company expected doorstep deliveries to fall to 30 per cent of total liquid milk deliveries in less than five years.

Operating profit on convenience foods rose from £21.5m to £22.5m on sales of £272.3m (£262.4m), while grocery saw profits advance to £9.5m (£8.6m) on sales of £105.9m (£92.3m).

Sales to Marks and Spencer, Northern Foods' biggest customer, had advanced strongly, while Park Cakes and Fox's businesses had performed particularly well.

However, profit on meat products fell to £9.4m (£11.4m) on sales of £148.3m (£158.1m). The declines reflected a reduction in van sales to small shops and selective trading down by consumers.

Earnings per share advanced to 9.37p (8.99p).

The interim dividend is raised from 3.4p to 3.5p.

● COMMENT

Northern Foods appears so far to have fended off retailer pressures to cut prices, thanks partly to its emphasis on premium products such as chilled foods and up-market groceries, which are on the sidelines of the supermarkets' war. However, not all its customers are like Marks and Spencer. Its biggest weak spot is liquid milk, almost half its business. Though it insists retailers are bearing most of the cost, their aggressive pricing is capturing sales from doorstep deliveries at alarming speed. Meanwhile, its highly profitable sales to small shops are suffering, as more consumers desert them for big supermarkets. At this stage, Northern Foods' warnings that the price war is unsustainable seem based more on hope than expectation. With no sign of a let-up in the second half, analysts have been downgrading their full-year forecasts to no more than £160m, compared with £153m last time.

Ronson named in $83m Pima lawsuit

By Maggie Urry in London and Patrick Harverson in New York

Mr Gerald Ronson and his co-director of Heron International, Mr Alan Goldman, are two of 12 defendants named in an $83m (£55.7m) lawsuit initiated by a US federal agency earlier this month.

The suit concerns Pima Savings & Loan, an Arizona-based thrift, formerly a subsidiary of Heron. Many believe that without the losses Heron made on Pima it might have avoided the need for a £1.4bn financial restructuring, which was completed in September.

The suit was foreshadowed in Heron's restructuring document published in May. That disclosed that the Resolution Trust Corporation, which is investigating the affairs of Pima, had asserted that $83m had been lost through "unsafe and unsound lending practices and mismanagement" among other things. The RTC demanded repayment of the $83m from the former directors and officers of Pima failing the submission of reasons why the RTC should not seek reimbursement.

The document said that Heron was liable to indemnify the directors and officers against the losses.

Heron acquired Pima in 1980 and it expanded rapidly. But in the late 1980s it hit problems, along with hundreds of other savings and loan businesses, and Heron attempted to sell it.

When these efforts failed, the business was taken over by the Office of Thrift Supervision in March 1990 and later went into receivership. Heron wrote its investment in Pima down to nothing.

In the 1990 accounts, Heron showed a loss from discontinued businesses, largely Pima, of £193.2m, after a £39.4m loss in 1989.

In the lawsuit, filed in Phoenix, Arizona, the RTC claimed that under Heron's ownership Pima had turned from a simple home lender to an aggressive commercial lender chasing a high return on assets.

Vodafone improves to £174.5m but warns of downturn

By Andrew Adonis

Vodafone, the UK mobile communications group, reported interim pre-tax profits up 8.9 per cent from £160.2m to £174.5m for the six months to September 30, but warned that high start-up costs for overseas licences were likely to depress profits for the next two years.

Mr Gerry Whent, chief executive, also projected additional heavy start-up losses next year should Vodafone win the licence to run the new national lottery in its consortium with Hambro's, Carlton and Associated Newspapers.

Mr Whent raised the possibility that in spite of Vodafone's large cash reserves – £186.3m at September 30 – it might take on a "relatively small" amount of debt to meet investment obligations next year.

Group turnover was up 22 per cent at £389.8m (£319.8m), but operating profit fell from 48 per cent of sales to 43 per cent, mainly because of new overseas licences.

Through its expansion programme, Vodafone's overseas licences now cover a population equivalent to 42 per cent of its UK base, adjusting for relative income.

New networks opened in Greece in July and Australia in October.

To achieve its goal of a 50:50 population split between UK and overseas licences, adjusting for income, the company intends to bid next year as part of consortia for new cellular licences expected in Belgium, Italy, France and the Netherlands.

Overseas operations incurred net losses of £13m for the six months, projected to grow to about £25m over the full year because of start-up costs.

Mr Whent anticipated losses of about £50m next year, with networks in the first year of operation in Germany, South Africa, Fiji and Australia. In 1994-95 overseas investment will for the first time exceed UK investment.

With only 4,500 customers between them, Mr Whent said the growth of the company's two new UK digital networks was "slower than expected". He denied it was due to the successful launch of Mercury One-2-One's digital service in the London area, attributing it to the poor availability of handsets and the robustness of the existing analogue network.

Vodafone achieved 130,000 net new connections to its UK network in the six months, up 130 per cent on last year.

Earnings per share rose 8.7 per cent to 11.7p (10.8p). An interim dividend of 4.12p (3.43p) is declared.

See Lex

Marston Thompson up 21%

By Philip Rawstorne

Marston, Thompson & Evershed, the regional brewer, raised first half profits by 21 per cent to £11.5m as reciprocal trading agreements with national brewers contributed to a 4 per cent increase in beer volumes.

Mr Michael Hurdle, chairman, said he was optimistic about a satisfactory outcome for the year though the profit increase in the second half was likely to be lower.

"With few signs of an upturn in the economy, conditions in the brewing industry remain difficult and continue to become increasingly competitive," he added.

Earnings per share during the six months to September 25, grew 19 per cent to 8.71p (7.3p) and the interim dividend is raised from 1.45p to 1.6p.

Operating profit rose from £9.58m to £11.8m on turnover ahead 11 per cent at £70.1m (£63.2m).

Beer volume sales outside the company's own pubs increased by 14 per cent with benefits from the reciprocal agreements with national brewers, growing sales of canned draught Pedigree, and a 30 per cent rise in marketing expenditure.

"The increase in external sales is a highly encouraging result in an area that we see as having further growth potential," Mr Hurdle said.

Sales in Marston's own estate declined 3.4 per cent. The managed houses showed good growth – liquor sales 14 per cent ahead, food sales 16 per cent higher and retail trading profits growing 25 per cent – but trading conditions remained difficult for some tenanted pubs.

A long period of decline in volume sales to free houses was arrested and sales were ahead at the half year. Free trade loans were £500,000 higher but a £700,000 provision was also made for bad debts.

Capital expenditure in the first half totalled £21.8m, including £12.7m on pub acquisitions.

Capital Radio advances by 33% to £11.7m

By Raymond Snoddy

Capital Radio, which yesterday announced a one third rise in pre-tax profits to £11.7m for the year to September, is seriously considering applying for the third national commercial radio franchise.

The Radio Authority will advertise the franchise, which has to be mainly speech-based, next week and the station could be on air by autumn 1994.

Mr Richard Eyre, managing director, said: "A lot of work needs to be done but it is too big a deal to turn down at this stage".

The format specified by the Radio Authority for the last national commercial channel in the UK for some time would mean that at least 51 per cent would have to be speech. Capital, on its two London services already offers music and sport and could add a more substantial news service.

Capital's profit increase came after excluding the exceptional gain of more than £2m from the sale of the Duke of York's Theatre. Earnings per share rose by 30 per cent to 11.3p.

The dividend is up by 9.5 per cent from 5.25p to 5.75p.

Mr Ian Irvine, chairman, said yesterday there had been a revival of confidence in radio advertising in the last three months of the year.

"Our efforts to make radio more competitive in the media market place are bearing fruit," he added.

Turnover in existing businesses increased by 6.7 per cent while costs were cut by 1.2 per cent. In the six months since its acquisition, the chairman said the Midlands Radio group contributed £1.1m to group operating profits.

Analysts are forecasting pre-tax profits of about £14.5m for the current year.

The main priority for Capital now is to retain its two London licences when they come up for renewal next summer.

Mr Eyre said yesterday that Capital FM remained London's number one radio station with a 17.3 per cent share, 5 percentage points ahead of BBC Radio 1: Capital Gold remains the number two commercial station with an 8.5 per cent market share.

The shares rose 14p to 223p.

NSM £699,000 in the black

By Catherine Milton

NSM, the heavily-indebted international coal company, showed pre-tax profits of £699,000 for the six months to September 30, compared with losses of £1.98m last time.

The results are the first since the completion of a series of disposals designed to reduce borrowings which began in March 1991. Borrowings had fallen to £88.6m (£94.6m) at the half-way stage, amounting to some 158 per cent (200 per cent) of shareholders' funds of £56m (£47.2m).

Interest payments of £3.94m (£4.96m) eroded profits, mainly struck on coal businesses in the UK and the US, of £4.64m (£2.98m), including a £576,000 contribution (£621,000 loss) from discontinued operations.

Turnover fell to £56.9m (£62.3m) without the benefit of last time's £5.44m contribution from discontinued operations.

Future growth in the UK would come from cutting costs and selling additional tonnage to the electricity generators "in due course", said Mr John Jermine, chief executive. In the US, the company's operations were well placed to benefit from clean air legislation planned to be in force by 1995.

NSM was also due to see income from renting out landfill sites likely to start in the early part of 1994: "Ex-coal sites are ideally engineered to operate as landfill sites," said Mr Jermine.

He had joined the company in 1991 and admitted NSM had a history of ill-starred diversifications: "I have no plans to diversify. The key objective remains to build on the US operations and reduce debt."

He said there were "no obvious ways for reducing the debt" further, barring small rump disposals. The company was only likely to consider a rights issue to cover the cost of any future acquisition which is not currently foreseen.

NSM's shares are roughly 90 per cent held by institutions, including the Kuwait Investment Office, whose resources have been depleted by the costs of the Gulf war and losses on Spanish investments. NSM said the KIO had a 9 per cent stake which it had so far said it had no plans to sell.

Earnings per share were 4.3p (10.5p losses) but the company has no plans to return to the dividend list in the near future.

Nelson Hurst seeking £31m

Nelson Hurst, the insurance broker, yesterday issued a pathfinder prospectus for its proposed listing on the Stock Exchange via a placing and intermediaries offer by Charterhouse Bank. Smith New Court Corporate Finance are brokers to the issue, writes Richard Lapper.

Nelson Hurst, which specialises in professional indemnity, Latin America and Asia, aims to raise £31m in new money. In addition, existing shareholders will sell a proportion of their shareholdings.

Directors are forecasting an operating profit of £7.2m for the year to December 31, compared with £3.8m the previous year. They also announced that Mr Graham Lockwood has been appointed non-executive deputy chairman.

St Paul injects £20m into the Lloyd's market

By Richard Lapper

St Paul Companies, the leading US insurance and financial services group, is to become the second international insurance company to join the Lloyd's of London insurance market, taking advantage of the recent opening to corporate capital.

Last month Yasuda Fire and Marine, Japan's second biggest insurance company, injected £1.5m of capital into its Lloyd's subsidiary.

St Paul injected £20m into a new subsidiary, Camperdown Corporation, which will supply between £30m and £40m of capacity to 10 to 15 Lloyd's syndicates in 1994.

Mr Jeff Post, of St Paul, said the group was particularly interested in obtaining access to specialist markets such as ocean marine and war risk through its participation at Lloyd's. It was also seeking to underwrite some catastrophe business.

Mr Post said that following the failure or scaling back of some of the new Lloyd's investment trusts there was a "new rush for capacity from some syndicate managers".

Merchant banks and securities have raised more than £800m from institutional and retail investors in the past few weeks. And two large US investment companies – London Market Investors and Lutine Capital Corporation – still have to finalise plans to raise some $600m (£403m) from international investors.

Abbey National increases UK retail deposit share

By John Gapper, Banking Editor

Abbey National, the mortgage lender and banking group, said yesterday that its share of UK retail deposits had "increased substantially" in the third quarter of the year.

It gave the estimate in its first quarterly business report.

Abbey said its share of new mortgage lending had fallen from the 27 per cent achieved in the first half as a result of competitive response to its marketing of fixed-rate products in the six months to June 30.

There had been some narrowing of the retail net interest margin, but this was offset by lower bad debt charges resulting from further cuts in mortgage arrears and repossessions.

Mortgage accounts more than six months in arrears fell to 21,100 at the end of September, against 22,800 at the end of June. The stock of repossessed properties has fallen by one third this year to 6,189 at the end of September.

Abbey's shares closed 2p down at 401p.

More changes proposed to FT-SE classifications

By Maggie Urry

The FT-SE Actuaries Industry Classification Committee has published its second list of changes to the proposed new classification system which is due to come into effect on January 4 next year.

The changes follow a second adjudication meeting of the committee which is part of the consultative process following the publication of initial proposals in October. A third adjudication meeting will be held next Monday.

The committee has now completed its review of the sectors and sub-sectors, and has taken decisions on two thirds of the representations made about individual companies.

It is taking the companies in sector order, so has not yet reached Inchcape, the international trading and motors group, which has made strong representations about its classification as a motor distributor.

Yesterday's announcement included changes to the insurance sectors and a further 57 moves of companies to different sub-sectors.

Mr Nick Fitzpatrick, chairman of the committee, said the committee recognised "that some companies may be disappointed" but once in operation classifications would be reviewed quarterly.

One company thought to be disappointed is Wickes, which wanted to move from builders' merchants to retailers but has stayed put.

The originally proposed Insurance, Composite sector, which had only one sub-sector also called Insurance, Composite, is to be broadened and renamed Insurance.

As well as the composite insurers, it will include Insurance, Brokers, formerly a sub-sector in the Other Financial sector, and a new sub-sector called Insurance, Lloyd's Funds, which will contain the new listed Lloyds corporate capital vehicles.

The Insurance, Life sector and sub-sector, will be renamed Life Assurance.

Among the company moves, Allied-Lyons is to switch from the Breweries sub-sector to Spirits, Wines & Ciders. Siebe and Weir Group have both been reclassified in Engineering, Diversified from Engineering Contractors. Vickers, which makes tanks and Rolls-Royce cars, is moving from Engineering, Aerospace and Defence to Engineering, Diversified.

A full list of the changes will be published in tomorrow's edition of the Financial Times.

£11m at nine months for Wace

Shares in Wace Group rose 3p to 163p after the pre-press and specialist printing company unexpectedly reported pre-tax profits of £11.4m in the nine months to September 30, writes Andrew Bolger.

Mr Frans ten Bos, chairman, said that in view of the continued changes in the group he believed reporting the nine-month result for the first time was the best way of keeping the market informed of the group's development.

He said the improved performance at the half year had continued. Sales for the third quarter amounted to £85.4m, taking the nine-month total above £250m. Trading profits in the quarter were £6.2m, representing a margin of 7.3 per cent, against 6.9 per cent for the first six months.

During the third quarter progress was made in cutting borrowings, which fell £8.4m in the quarter and by £12.8m in the nine months. Net borrowings at the end of September were £75.9m, down from £88.7m at beginning of the year.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Allied-Lyons	int	7.3	Feb 25	6.95	-	21
Amber Industrial	int	6	Jan 18	5.5	-	18.5
Anglo Irish Bank	fin	2‡	Jan 21	2	3.36	3.36
Capital Radio	fin	4	Jan 17	3.5	5.75	5.25
City London PR §	int	1.27	Jan 17	1.15	-	3.5
Cosalt	fin	3.25	Jan 26	4.25	5.375	10.75
Falcon Hldgs	int	3	Jan 21	-	-	5
F&C Emerging	fin	0.27	Jan 12	0.25	0.27	0.25
Marston Thompson	int	1.8	Jan 18	1.45	-	5.4
Northern Foods	int	3.5†	-	3.4	-	8.4
Readicut Intl	int	0.63	Feb 9	0.63	-	3.44
Sterling Inds	int	1.8	Feb 11	1.5	-	5.6
Stratagem	fin	3.25†	Dec 29	4.75	4.75	4.75
Thorn EMI	int	9	Mar 4	9	-	32
Vodafone	int	4.12	Feb 11	3.43	-	8.96

†On increased capital. §USM stock. ‡Irish pence.

Low demand for Lilliput

By David Blackwell

Retail investors and employees have taken up only 24.7 per cent of the shares available to them in Lilliput Group, the Cumbria-based manufacturer of hand-painted miniature china cottages.

The company earlier this month placed a total of 12.04m ordinary shares, priced at 125p, with institutional and other investors.

Of the total, 4.2m were subject to a clawback to meet retail demand through intermediaries.

Just over 1m have been recalled, of which 35,000 will go to eligible employees.

The flotation is raising £15.3m for existing shareholders and £2.43m net of expenses for the company, of which £1.47m will be used to redeem preference and deferred shares. Dealings begin tomorrow.

In no man's land: neither a hard discounter nor superstore

Neil Buckley looks at Kwik Save amid fears that it may be hard hit in the supermarket price war

It is one of the ironies of retailing that Kwik Save, for so long one of the UK's cheapest supermarket chains, is facing fears that it may be one of the hardest hit by the latest supermarket price war.

On the face of it, all is well at the 810-store discount chain, with Kwik Save forecast today to announce a rise in full-year pre-tax profits from £110.6m to about £125m. Its share price has also held its value rather better this year than those of the superstore chains.

But while the most recent slide in the shares of the biggest chains, which began after Sainsbury cut the price of 300 own-label products, has abated, the downwards spiral has continued at Kwik Save. Its shares have lost almost 10 per cent in the last three weeks.

That might seem puzzling, since Kwik Save virtually invented "hard" discounting – selling a limited range off narrow margins at very low prices in no-frills shops – in the UK.

Its founders developed their first supermarket, Value Foods, at Prestatyn in North Wales in 1962. Renamed Kwik Save in 1965, the chain was modelled on the pioneer of discounting in Europe, Germany's Aldi. It developed a potent formula which outlasted would-be rivals such as Victor Value and Pricerite, and has enjoyed both the highest returns on capital – at close to 40 per cent – and the fastest underlying sales growth in the industry.

However, fears now surfacing in the City centre on a strategic decision Kwik Save made in 1988 to expand its range from about 600 to about 2,500 product lines. That was made possible by investment in new computer systems linked to laser-scanning at the check-outs.

The move, say critics, has slowed Kwik Save's stock turn, pushed up costs, and left it no longer able to offer the keenest prices. They fear Kwik Save has wandered into "no man's land", where it is neither a hard discounter, nor a superstore.

Competition is stiffening at both ends of the market. At one end, Kwik Save faces competition from a new generation of fast-expanding hard discounters. Ironically, one of these is Aldi, inspiration for Kwik Save in the 1960s, while another is Shoprite, set up by the son of one of the co-founders of Kwik Save.

These stick more faithfully to the original discounting principle of carrying only 600 to 1,000 lines.

At the other end of the spectrum, market leader Sainsbury has cut the prices of basic goods to a level where they compete with the discounters, and Tesco, the UK's number two, has launched its Tesco Value line of low-priced basics. Safeway is cutting prices too.

Kwik Save counters that it is not in danger of losing sales in either direction, as its introduction of new technology allowed it to extend its range without sacrificing its edge on price. It claims it can match or beat the prices of the hard discounters while offering up to three times as many items.

Moreover, it argues that the expansion of range by the big supermarket operators through the 1980s from about 4,000 lines to more than 15,000 raised customers' expectations about the number of products they should find even in a discount store. Kwik Save says it is alone among discounters in meeting those expectations.

City analysts dispute this, however, claiming that Kwik Save has resorted to tactical pricing, lowering its prices in areas where it competes directly with a hard discounter, and so sacrificing margins. One claimed last week that Kwik Save was even having to lower prices to compete with the superstores.

Kwik Save's other counter-argument is that it is under-represented in several parts of the country, particularly south-east England and Scotland. It is opening up to 80 new stores a year, at an average cost of less than £1m per store – against about £20m for a large superstore – all funded organically.

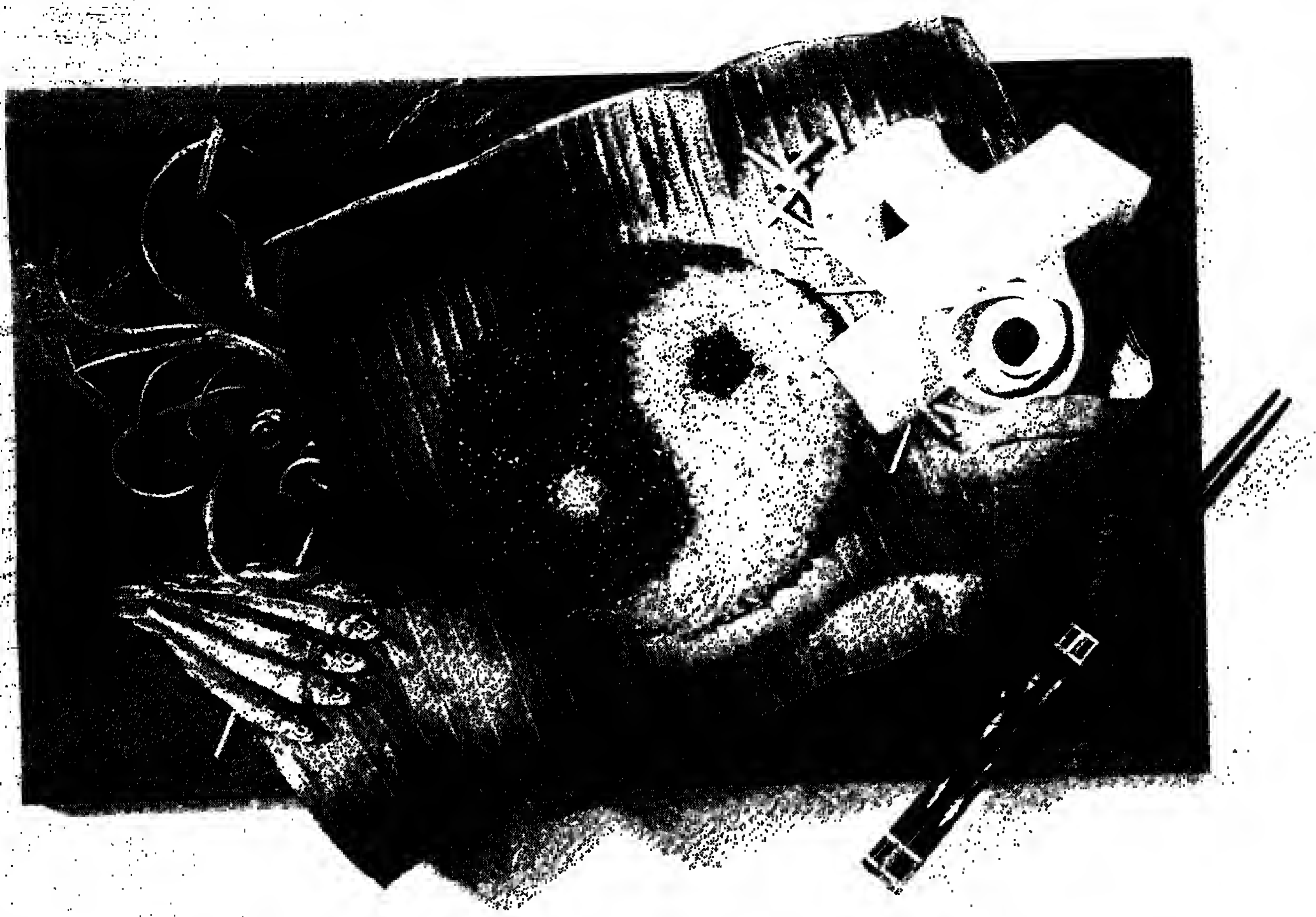
In spite of its expansion plans, Kwik Save could be facing a slow-down in profits growth, and a squeeze on its margins. While some analysts have kept their forecast for next year's profits at about £145m to £150m, others have dropped them as low as £128m. The operating margin is forecast to drop from more than 5 per cent in the late 1980s to below 4 per cent next year.

The pressure is now on Mr Graeme Bowler, who replaced Mr Graeme Seabrook as managing director in June and gives his first results presentation tomorrow.

As a former managing director of Franklins, a hard discounter in Australia, some analysts expect him to be a more aggressive retailer than his predecessor. They will be listening hard for any indications that Kwik Save may trim its range to improve prices and move back towards its hard discounting roots.

to proceed. in the Ukraine, unable and Electricité de France, told the

Doing Business with Confucius.



It's a well-known fact: some Asian countries are among the world's leading economies.

The success of the Confucian philosophy in the computer age.

Looking closer at the causes, ona of the first things that springs to mind are tha teachings of Confucius, dating from over 2,500 years ago – a school of thought which laid the groundwork for an unusually favorable economic environment.

The foundation for success has baan built on an uncompromising recognition of competence, the importanca of gatting a good education, and especially the individual's profound feeling of being at one with both society and his employer.

It goes without saying that such strengths, which have evolved over generations, also involve duties. For in ordar to sustain the climate of harmony, each individual is expected to comply with various, and at times subtle, rules of behavior.

To take an example: those much-beloved and protracted business dinners are not designed primarily as a medium for business negotiations.

But by fostering a state of harmony and creating the correct atmosphere, they do help ona successfully conduct business.

If in the course of negotiations you are confronted with a situation where you could in some way cause your counterpart to "lose face," you should refrain from persisting even if you are clearly in the right. You can expect this demonstration of good will to be met with grateful recognition, even if none of those present openly show it.

By behaving in this way, you will have by no means lost influence. On the contrary, you will have shown that you have taken to heart the most important rule of conduct: in a dignified manner, always permit your counterpart to save face. And by doing so, you will also further your own interests.

Business in Asia requires patience and time. But once accepted, you'll always be accepted.

Dresdner Bank has been an active and respected member of the Asian business scene for many years now, with naarly five hundred committed professionals – both western and eastern – serving customers with their experience and expertise.

Our customers know they can rely on us to help bring their interests into harmony with the various Asian markets, each with its own particular local business customs.

Striving for harmony as a formula for competitive success.

And yet, every day even we still learn something new.

That is how it should be. For, in the words of a Chinese proverb, continually striving to secure longterm success is more important than "quickly plucking a feather from a passing goose."

Dresdner Bank

Sale continues strategy of concentrating on core activities

BTR disposes of US offshoot

By Andrew Bolger

BTR, the industrial conglomerate, is selling Summers Group, a Texas-based electrical wholesale business, for up to $120m (£80.5m) to Willcox & Gibbs, the US distribution and manufacturing group.

Mr Alan Jackson, BTR's chief executive, said: "We are very pleased to have concluded this divestment which represents a further important step in reducing our involvement in wholesale distribution.

"It complements our recent divestment of the Newey & Eyre electrical distribution business in the UK and our stated intention to float the Graham builders' merchant business in 1994".

The disposals are in line with BTR's strategy of concentrating resources on the development of its core industrial manufacturing businsesses, which Mr Jackson has adopted since he became chief executive in 1991.

Summers, based in Dallas, has more than 80 branches in the southern US and about 1,100 employees. Last year it had sales of $395m and post-tax profits of about $6m. Net assets being sold amount to $66m.

BTR will receive an initial $85m and further profit-related payments of up to $35m.

In September BTR agreed to sell Newey & Eyre Group, a Birmingham-based electrical distribution group, for up to £165m to Hagemeyer, the Netherlands-based international trading house.

Last month BTR said it would spin off the Graham group of builders' merchants and other businesses through a stock market flotation in the first half of next year. The flotation is expected to value the Graham group at about £200m.

● BTR has won the inaugural British Quality of Management Award, sponsored by Mori, the market research organisation, and Sundridge Park, the corporate and executive development organisation. Mori asked financial institutions, leaders of industry and financial editors of national papers to nominate companies they believed had quality management.

Hanson sells US office arm for £110m

By Maggie Urry

Hanson, the Anglo-American conglomerate, announced the second disposal of a US subsidiary in two days yesterday when it said it had agreed to sell Hanson Office Products for £110m. It follows Monday's agreed sale of Axelson for £56m.

The business is the third largest contract stationer and forms management company in the US.

The buyer is Corporate Express, a private contract stationer, backed by four investors, K-Mart, JP Morgan Investment, Donaldson Lufkin & Jenrette, and InterWest Partners.

Hanson said it was a further part of its drive to reduce debt following its $3.2bn (£2.1bn) acquisition of Quantum Chemical Corporation to the summer.

Hanson Office Products made an operating profit in the year to end-September of £9.3m on sales of £253.7m.

Net book value is £33m, and with £66m of goodwill written off on acquisition, Hanson will show an exceptional gain of about £10m on the sale.

Cost cuts help Readicut advance 12% to £6.73m

By David Blackwell

Trevor Humphries

Clive Shaw: US recovery sluggish, continental Europe still in recession and only irregular signs of recovery in the UK

A continuing cost reduction and investment programme helped Readicut International lift interim profits by 12 per cent in spite of difficult markets.

The household textile, carpeting and yarn company reported pre-tax profits of £6.73m for the half year to September 30, compared with a previous £6.01m. The latest figure included a currency benefit of £212,000.

Mr Clive Shaw, managing director, described market conditions during the half year as "far from ideal".

In the US recovery was proving sluggish, continental Europe was still in recession, and there were only irregular signs of recovery in the UK.

Profits from continuing operations rose from £6.84m to £7.39m. Last time's pre-tax figure included £517,000 from discontinued operations, reflecting the group's sale of Russells Rubber in February.

Turnover increased to £113.4m compared with £106.7m last time, when there was a £5m contribution from discontinued operations. About £3.1m of the rise in turnover reflected currency exchange benefits.

Turnover improved in all four divisions. But operating profits were down from £1.67m to £1.5m in the furnishings and household textiles division, reflecting a fall in sales of car carpeting, and from £2.23m to £1.79m in the yarns and fibres division, reflecting lower sales to the Middle East of fibre making machinery.

Profits were ahead in all three of the carpet companies, which contributed £2.06m (£1.62m). The industrial products and services division boosted profits from £1.32m to £2.02m on the back of a big rise at Hoyland Fox, which makes umbrella frames.

The group had continued to cut costs and invest. It had shed 79 jobs in the half year at a cost of £459,000. Capital expenditure was £6.8m, compared with depreciation at £4.4m.

Net interest payable fell by just over 50 per cent to £665,000 (£1.35m). Net borrowings were £14m at the end of September, giving gearing of 18 per cent. The comparable figures last time were £22.3m and 33 per cent respectively.

Earnings per share rose from 2.12p to 2.36p. The interim dividend is maintained at 0.63p.

Appl'd Holographics cuts loss

By Chris Tighe

Applied Holographics, the USM-quoted producer of holographic products for security and packaging uses, yesterday reported its first operating profit since it was founded in 1983.

However, losses of £71,209 (£57,033) on CFC AH, a US joint venture, resulted in pre-tax losses of £60,115 for the six months to end-September. Losses last time were £622,383.

Turnover was £3.04m (£2.37m), generating operating profits of £53,116, compared with losses of £522,317.

Holographic product sales increased by 54 per cent, but the manufacture of hot stamping foils declined by 28 per cent as production was progressively transferred to Whiley Foils under a deal announced in May.

The company said the second half had opened with a slightly lower level of holographic base business, but there were prospects of a number of potentially significant contracts.

In addition, the new Chicago facilities of CFC AH were now virtually completed and should be in production for the last quarter.

Mr David Mahony, chairman, said the company's business had now been stabilised.

Its deficit now stood at £17.3m.

Losses per share were reduced from 3.1p to 0.29p.

The shares closed 6p lower at 65p.

Melville losses at £1.18m

Melville Group, the exhibition services and interior fitting company, reported losses before tax of £1.18m for the year ended June 30 1993. Last time there were losses of £18.6m, restated in accordance with FRS 3.

The result was after a fall in exceptionals and provisions from £12.7m to £930,000. Following the reorganisation and refinancing in December 1992 the group turned in an operating profit of £3.21m (£312,000).

Turnover on continuing operations rose to £75.6m (£69.7m). Losses per share were reduced to 3.15p (38.07p).

Litigation costs put Rodime $2.14m in red

As foreshadowed at the interim stage, Rodime, the Glasgow-based disk drive technology licensing company, fell into the red for the year to September 30. It blamed increased litigation spending and lower licensing income.

The pre-tax loss was $2.14m (£1.4m) against profits of $1.69m. Losses per share came out at 1.7 cents, against earnings of 0.8 cents.

The company is still in litigation over patent infringements with three US disk drive manufacturers – Seagate Technology, Maxtor and Quantum. During the year the company completed agreements with Samsung Electronics and Sony.

Mr Malcolm McIver, chairman, said that no significant agreements had been reached in the second half as other companies deferred or delayed negotiations until the outcome of the three cases was known.

Operating income fell from $8.69m to $4.18m.

Bank debts were cut over the year to $2.7m. The company has, however, negotiated with the Bank of Scotland an $8m increase in its $3m revolving credit facility.

Mr McIver said that would provide sufficient resources to complete its patent infringement strategy through litigation or negotiation.

The company produced the first 3.5 inch disk drive in the early 1980s. It has since ceased production and is concentrating on gaining income from licensing. During the year it completed the disposal of assets of its subsidiaries and the renegotiation of some obligations of its offshoots which Rodime had guaranteed.

TLS in £7.4m purchase

TLS Range, the USM-quoted vehicle hire company, is acquiring Auto-Rentals (Nationwide) from Unigate for £7.4m, including repayment of inter-company debt.

TLS is also raising £2.8m net from a placing and a 1-for-1.887036 open offer of 12.5m shares at 24p. The shares were unchanged st 26p yesterday.

At completion AT&T Capital will acquire part of the Auto-Rentals fleet for £3m, less advance rentals amounting to £500,000. Auto-Rentals will manage this fleet on an operating lease. The rest of the consideration will be financed by facilities provided by AT&T and part of the proceeds of the cash raising.

For the year to March 31 1993 Anto-Rentals made pre-tax profits of £640,000 on turnover of £5.5m.

NEWS DIGEST

Enlarged Stratagem up at £1.2m

Profits of Stratagem rose from £386,000 to £1.2m pre-tax for the year to August 31. The figures reflected a period of strategic change and development for the company.

The group has evolved from an investment company into a group with interests in the manufacturing, distribution and service sectors.

Turnover totalled £10.5m (nil) and earnings per share worked through at 5.5p (2.7p). A recommended final dividend of 3.25p makes a same-again 4.75p total.

The directors said they were confident that the various parts of the enlarged group would benefit from the management and financial changes which the acquisition of Harrison Industries and the recent £8m capital raising had facilitated.

Nesco

Nesco Investments is selling 70 per cent of its Nigerian interests to its chairman and managing director and is to concentrate on its software side. The name is to be changed to DCS Group.

It has also announced pre-tax profits up from £222,313 to £231,406 for the year to June 30.

The results of its Nigerian offshoot were excluded on the grounds that the recent political unrest meant that Nesco had diminished control.

The consideration is £180,000 cash: Nesco also has an option to sell the remaining 30 per cent for £90,000 within five years.

In the year to May 31 the Nigerian company showed a pre-tax profit of N2.85m (£56,000). The book value at June 30 was £152,517.

The sale will realise about £115,000 for working capital.

Turnover for the year was £5.55m, against £5.31m, which included £425,000 from the Nigerian side. Earnings per share were 2.92p (2.45p).

Albert Fisher

Mr Stephen Walls was paid £358,000, including pension contributions, in his first year as executive chairman of Albert Fisher, the food processing and distribution group.

That compares with the £284,000 received the previous year by his predecessor, Mr Tony Millar, who resigned last July after a sharp fall in the group's share price and a profits warning.

Mr Millar, who built the group rapidly by acquisition during the 1980s, received compensation of £862,000.

Minmet

Minmet is seeking to raise I£720,000 (£685,000) through a placing and offer to shareholders and to float off Connary Minerals.

The company is raising I£370,000 net through the placing of 10m shares at 4p. Up to I£350,000 is being raised through a 1-for-10 offer to shareholders.

Connary is no longer seen as having a future with the group as it expands as an environmental resources group. It is intended to give shareholders shares in Connary. Minmet intends to retain an interest and share directors.

Minmet also announced a pre-tax loss for the three months to September 30 of I£90,691 having shown a profit of I£129,364 in the six months to June 30.

LEGAL NOTICES

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re

MACMILLAN, INC., et al.,
Debtors.

Chapter 11
Case No. 93 B 45625 (TLB)
Jointly Administered

NOTICE OF ENTRY OF AN ORDER (i) FIXING THE LAST DATE FOR FILING PROOFS OF CLAIM AND PROOFS OF INTEREST, (ii) EXTENDING THE TIME FOR FILING OF A DISCLOSURE STATEMENT, (iii) SCHEDULING A HEARING TO APPROVE THE DEBTORS' PROPOSED DISCLOSURE STATEMENT, (iv) SCHEDULING A HEARING ON CONFIRMATION OF THE DEBTORS' JOINT PLAN OF REORGANIZATION, (v) PRESCRIBING THE MANNER FOR FILING OBJECTIONS TO CONFIRMATION OF THE DEBTORS' JOINT PLAN OF REORGANIZATION, AND (vi) APPROVING THE FORM AND MANNER OF NOTICE OF THE DISCLOSURE STATEMENT AND CONFIRMATION HEARINGS AND BAR DATE

PLEASE TAKE NOTICE that:

1. Macmillan, Inc. ("Macmillan"), Macmillan College Publishing Company, Inc. ("College Publishing"), Jossey-Bass, Inc., Publishers ("Jossey-Bass"), and MCC LDM, Inc., formerly known as Molecular Design Limited, ("LDM"), the above-captioned debtors and debtors in possession (collectively, the "Debtors", each individually, a "Debtor"), filed their voluntary petitions for relief under Chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 et seq. (the "Bankruptcy Code"), on November 10, 1993 (the "Petition Date"). Pursuant to an order of the Court dated November 10, 1993, the Debtors' Chapter 11 cases have been consolidated for procedural purposes only and are being jointly administered. On November 10, 1993, the Court entered the above-captioned Order Fixing the Last Date for filing Proofs of Claim, etc. (the "Order").

2. The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

3. Along with their petitions, the Debtors filed their Schedule of Liabilities, List of Creditors, and Statement of Affairs, as required by section 521 of the Bankruptcy Code and Bankruptcy Rule 1007, along with the other schedules required by Bankruptcy Rule 1007 (collectively, the "Schedules").

4. Simultaneously with the filing of the petitions and Schedules, the Debtors filed a Joint Prepackaged Plan of Reorganization (the "Prepackaged Plan") with the United States Bankruptcy Court for the Southern District of New York (the "Court"). Copies of the Debtors' Prepackaged Plan and the Schedules are on file with the Clerk of the United States Bankruptcy Court for the Southern District of New York, (the "Clerk"), United States Bankruptcy Court, Alexander Hamilton Custom House, One Bowling Green, New York, New York 10004-1408 and may be reviewed between the hours of 9:30 a.m. - noon and 1:30 - 4:00 p.m.

Fixing Date For Filing Proofs of Claim

5. Except as provided in paragraph 6 below, each person or entity, including without limitation each individual, partnership, corporation, estate, trust, governmental unit, co-debtor, surety, and guarantor, but excluding any professional retained in the Debtors' Chapter 11 cases, that asserts any claim as defined in section 101(5) of the Bankruptcy Code, arising or deemed to have arisen against the Debtors, including certain subsidiaries of Macmillan listed on Schedule A that were merged into Macmillan or College Publishing, prior to the Petition Date shall file a written proof of claim that substantially conforms to the Official Form No. 10 so as to be received by the Court not later than 5:00 p.m. Eastern Standard Time on or before January 12, 1994 (the "Bar Date") at the following address:

United States Bankruptcy Court
Southern District of New York
Re: Macmillan, Inc., et al.
Bowling Green Station
P.O. Box 99
New York, New York 10274-0099

Proofs of claim may also be filed in person or by express mail by delivery to the Clerk of the United States Bankruptcy Court for the Southern District of New York, United States Bankruptcy Court, Alexander Hamilton Custom House, One Bowling Green, New York, New York 10004-1408. Such proofs of claim will be deemed timely filed only if they are actually received by the Court as set forth above.

[illegible]

York, 80 Broad Street, 3rd Floor, New York, New York 10004, (ii) the Debtors' counsel, Milbank, Tweed, Hadley & McCloy, 1 Chase Manhattan Plaza, New York, New York 10005, Attention: John G. Gellene, Esq., and (iii) the Purchaser's counsel, Simpson Thacher & Bartlett, 425 Lexington Avenue, New York, New York 10017, Attention: Lillian Kraemer, Esq. so that it is received by said parties and the Court on or before such date and time.

c. On or before January 28, 1994 by 5:00 p.m., any reply of the Debtors to objections to confirmation of the Prepackaged Plan (if the Debtors choose to file a reply) and any reply of any party to the Debtors' Evidence or memorandum of law supporting confirmation of the Prepackaged Plan (if such party chooses to file a reply) must be filed with the Court and served upon the Office of the United States Trustee, Debtors' counsel, Purchaser's counsel, and any parties who have filed such objections, as the case may be, so that it is received by said parties and the Court on or before such date and time.

Other than testimony presented to rebut the aforementioned pleadings, no direct testimony will be admissible into evidence at the Confirmation Hearing unless it has first been reduced to a written declaration or affidavit and filed and served pursuant to the procedures set forth above. Additionally, the testimony of any declarant or affiant who does not present himself or herself for cross-examination at the Confirmation Hearing will be stricken from the record and will not be considered as testimony in determining contested matters at the Confirmation Hearing. Finally, any objections, comments, or responses not timely filed and served will be stricken from the record and will not be considered as testimony in determining contested matters at the Confirmation Hearing.

16. Pursuant to the procedures set forth above, you have the right to attend the Confirmation Hearing and present Evidence and memoranda of law on all matters concerning confirmation of the Debtors' Plan.

17. In the event that you have questions concerning the Debtors, the matters set forth herein, or the Plan, or you need an Official Form No. 10 proof of claim or interest, you may write or telephone Debtors' counsel, Attention: Jeffrey D. Saferstein, Esq. at (212) 530-4956 or Lisa A. Turtel, Esq. at (212) 530-5990, between the hours of 10:00 a.m. and 5:00 p.m. Eastern Standard Time for assistance.

Dated: New York, New York
November 10, 1993

BY ORDER OF THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK
Honorable Tina L. Brozman, United States Bankruptcy Judge

Milbank, Tweed, Hadley & McCloy
1 Chase Manhattan Plaza
New York, New York 10005
(212) 530-5000
Attention: John G. Gellene, Esq.
Attorneys for the Debtors and Debtors In Possession

SCHEDULE A

Companies Merged into Macmillan	Tax ID	Companies Merged into Macmillan	Tax ID
Mills Acquisition Co.	06-1250118	Business Meters, Inc.	36-2466685
Barnell Loft, Ltd.	52-1541956	Macmillan Information Company, Inc.	13-3424859
Katherine Gibbs Realty Trust	13-6166797	U.S. Directory Service, Inc.	59-1367264
Maxwell Holdings, Inc.	13-3228961	Macmillan Real Estate Investments, Inc.	13-3502215
Maxwell Communication Corporation, North America	13-3388877	Macmillan (Delaware), Inc.	13-3598255
Maxwell Communication (Delaware), Inc.	13-3388853	Macmillan Diversified Company, Inc. (fka: Armed Forces Journal International, Inc.)	52-1561765
Science Research Associates, Inc.	36-1748082	Macmillan School Publishing, Inc.	13-3520874
The Scribner Book Companies, Inc.	13-1394780	Macmillan School Publishing Holding Company, Inc.	13-3702446
Atheneum Publishers, Inc.	13-1886308		
Macmillan Acquiring Corp.	13-3265000		
Webb Publishing Company	41-1548672		
Macmillan Capital Corporation	13-3139943		

Companies Merged into Macmillan College Publishing	Tax ID
NE Acquisition Co., Inc.	13-3602910

[illegible]

[illegible]	Pool purchase price	Pool purchase price	Pool selling price
0030	18.20	18.29	18.23
0100	26.21	25.16	27.27
0130	26.82	25.16	27.27
0200	26.82	25.16	27.27
0230	26.92	25.16	27.27
0300	26.82	25.11	27.27
0330	26.82	25.16	27.27
0400	26.92	18.34	18.34
0430	18.27	18.08	18.08
0500	18.27	18.08	18.08
0530	18.27	18.24	18.24
0600	[illegible]	18.40	18.40
0630	23.26	18.07	18.07
0700	24.08	25.10	27.21
0730	24.65	25.16	27.21
0800	24.95	25.11	27.21
0830	25.14	27.27	28.49
0900	27.27	30.70	32.92
0930	32.10	38.44	40.58
1000	32.18	38.44	40.58
1030	[illegible]	38.40	40.54
1100	[illegible]	30.77	32.89
1130	[illegible]	28.08	31.21
1200	27.21	28.08	31.21
1230	27.37	27.40	28.82
1300	27.32	28.72	27.84
1330	24.65	25.71	27.82
1400	24.65	25.71	27.89
1430	24.22	25.71	27.82
1500	24.22	25.71	27.89
1530	24.32	25.72	27.84
1600	27.79	25.88	27.37
1630	41.16	28.08	32.91
1700	118.27	40.82	64.40
1730	135.80	67.40	64.28
1800	108.34	68.23	60.17
1830	84.70	47.68	52.51
1900	85.45	40.16	43.40
1930	26.82	31.20	33.60
2000	26.94	26.67	31.09
2030	25.80	27.77	25.90
2100	25.43	25.41	27.32
2130	25.42	25.40	27.61
2200	25.47	25.40	27.51
2230	24.01	25.40	27.51
2300	24.01	25.40	27.61
2330	23.76	18.11	18.11
2400	18.27	18.40	18.40

[illegible]

· NATIONAL AUSTRALIA BANK GROUP ·

Reviewing the performance of one of the world's leading banking groups.

National Australia Bank Group is an internationally diversified regional banking entity. On Thursday November 18 the National reported a 33% increase in Group operating profit to $1,070.1 million (after goodwill and before abnormal item) for the year to 30 September 1993.

The National Australia Bank was formed in 1981 from the merger of National Bank of Australasia and Commercial Banking Co. of Sydney.

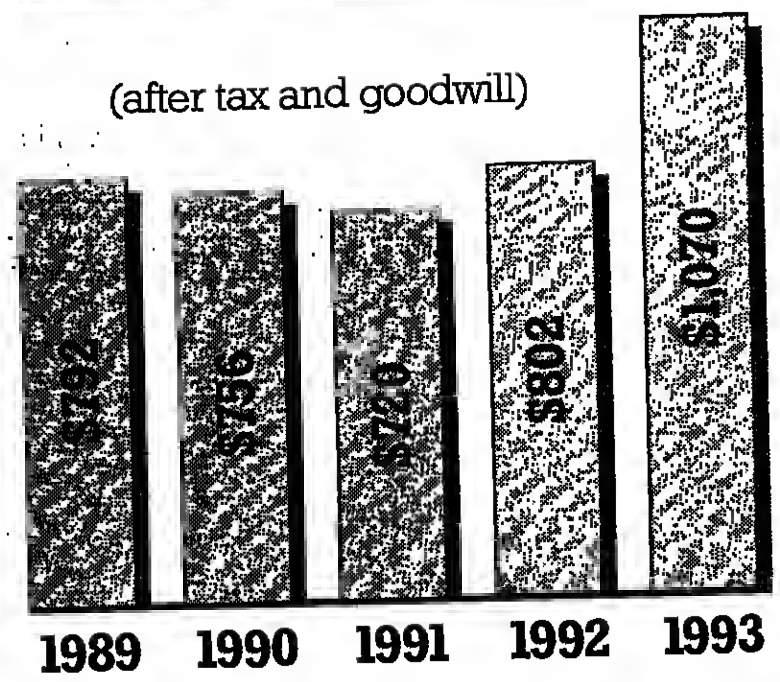
Since the merger the National has embarked on an expansion strategy to increase shareholders' value by diversifying its income streams and substantially increasing the depth of its customer base. This strategy has focused on acquiring quality regional banks with substantial franchises operating in jurisdictions which have business and banking practices similar to Australia. Five key markets have been identified: Australia, New Zealand, U.K., Ireland and U.S.

Clydesdale, Northern Bank and National Irish Bank were acquired in 1987. Yorkshire was acquired in 1990. Bank of New Zealand was acquired in 1992.

The National is the largest banking group in Australasia with total assets of $117 billion. The following are the key facts underlying the National's performance.

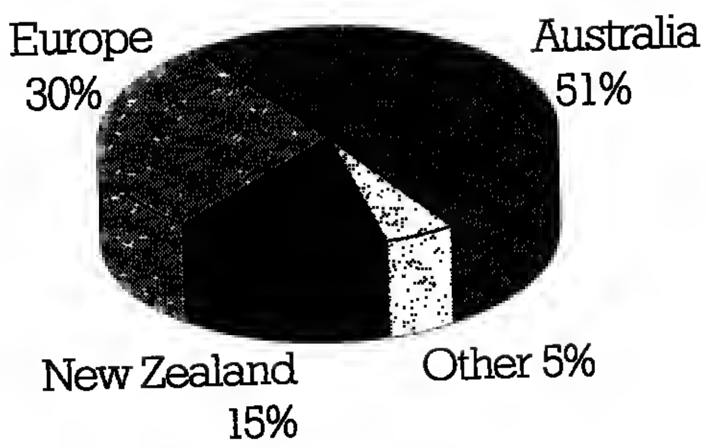
Profits Over 5 years

(after tax and goodwill)

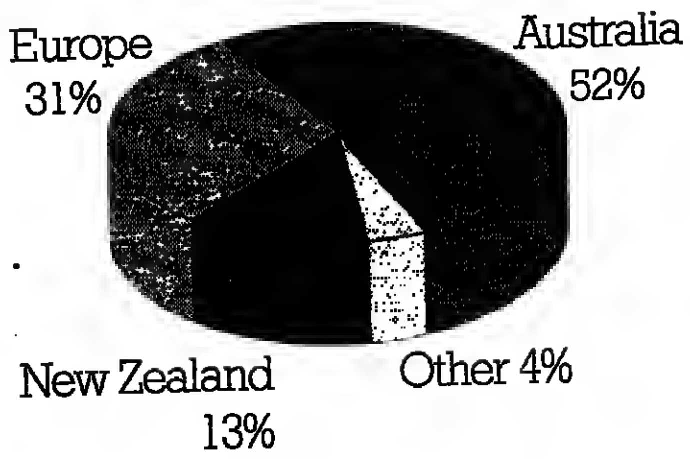


Assets & Revenue

Assets - 1993



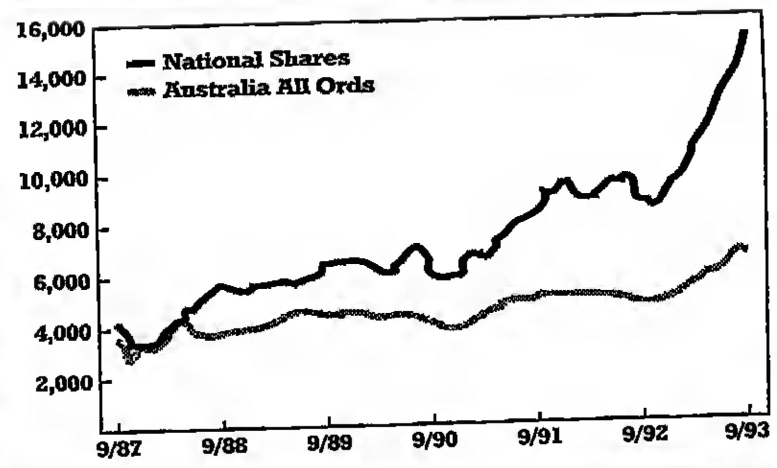
Revenue - 1993



Key Financial Performance Ratios

1. Earnings per share: increased by 29%
2. Return on Equity: 12.5%
3. Tier 1 Capital Position: 7.7%
4. Cost/Income Ratio: 55.8%*
   (* before restructuring costs)
5. Dividend Yield: 4.0%

Performance of Ordinary Shares



Comments from Mr D.R. Argus

Managing Director and Chief Executive Officer

"The 13% increase in underlying profit (profit before tax and provisions) to $2,485 million, and increasing diversification of income streams outside of Australia, was a direct outcome of strategic initiatives undertaken to broaden the Group's retail and business banking base."

National Australia Bank

National Irish Bank
Clydesdale Bank
Yorkshire Bank
NORTHERN BANK
Bank of New Zealand

COMMODITIES AND AGRICULTURE

Back to square one for Opec

By Robert Corzine in Vienna

The Organisation of Petroleum Exporting Countries last night conceded that it would have to go back to square one in its quest to end the decline in oil prices.

In a speech which will add to pressure on the oil ministers meeting in Vienna to make cuts in the present production ceiling of 24.52m barrels a day, Mr Jean Ping, the energy minister of Gabon and Opec president, gave a gloomy assessment of market conditions.

He noted that the price of the Opec basket of six crude oils was $14.70 yesterday, the level before Opec's September meeting in Geneva at which it set the ceiling in an effort push prices closer to the Opec target of $21 a barrel.

That ceiling has been largely observed, according Mr Ping, with output in October of 24.85m b/d. The bulk of the over-production occurred in Iraq, which is barred from exporting by United Nations sanctions. Ministers will focus over the next few days on possible further production cuts. Analysts say it could take at least a 3 per cent immediate reduction in the ceiling to counter bearish market psychology, especially as Opec calls for producers outside the organisation to curb their output are unlikely to lead to any short term relief.

Full in-tray greets Norwegian minister

Karen Fossli on the challenging questions facing Jens Stoltenberg

Mr Jens Stoltenberg, 34, Norway's new oil and industry minister, faces a busy opening period in his four-year term of office. Oil companies have no less than 25 field development plans on the drawing board, for 15 of which they intend to lodge development and operation plans this year and next.

According to the Norwegian Oil Review – a domestic trade journal published by Mr Hans Henrik Ramm, a former Conservative government state secretary – development concepts for 25 oil and gas fields are being evaluated by oil companies with oil fields containing recoverable reserves of between 2m tonnes and 70m tonnes and gas fields ranging from 3bn to 10bn cubic metres.

A recent report warned that precious few of these fields would be profitable under Norway's current tax regime if they used conventional technology and oil prices remained low.

The government recently disclosed that it was drafting changes to the petroleum tax regime that could increase the financial burden of foreign and domestic oil companies. The oil industry has expressed strong disapproval of the plans, saying they would have a negative impact on the industry and damage the government's credibility. Oil companies point out that investment decisions have already been made in the expectation that the 1992 reforms of the fiscal regime would prevail for longer than one year.

Last year's reforms created a loophole for foreign oil companies, allowing them to repatriate funds to parent companies at considerable loss of revenue – several hundred million kroner annually – to state coffers.

Mr Stoltenberg does not foresee other major changes to oil industry policy during his term but says emphasis is likely to shift to gas from oil.

"We have to develop our land-based industries to be competitive without them being dependent on oil revenue to provide state subsidies," he says.

One of Mr Stoltenberg's first achievements as minister was to forge closer ties with the former Soviet state of Kazakhstan.

He recently travelled there and signed a memorandum of understanding to establish an energy forum. He also promised free educational scholarships to Kazakhs under Norway's Petrad programme, which aims to enhance the expertise of the participants in the fields of petroleum management and administration.

A former state secretary of environment and an environmental activist in his youth, Mr Stoltenberg does not believe he should be forced to choose between petroleum and the environment.

"The moment you choose, you lose," he says. "The message of the Brundtland Commission's report to the United Nations on the environment is sustainable development, and this is what we intend to accomplish but not at the expense of the environment."

Mr Stoltenberg concedes that in the long-term, Norway's production policy could be open for discussion. "How much oil should we really be taking out of the North Sea?" he asks. "Environmentally speaking, it's easy to defend our depletion policy because part of our production is natural gas – and gas is an environmentally friendly replacement to other fuels."

Norway's natural gas supply to Europe is the most concrete and important contribution the country can make to sustainable development, he says. "It's good business and it's our way of helping to reduce Europe's harmful emissions."

Norway has about 40 years of crude oil production left at current levels and 80 years of gas at a rate of 60bn cu m annually – more than twice the current rate – which is expected to be achieved by the turn of the century. "We're not just pumping oil and consuming it . . . we are investing in Norway's future with petroleum revenue in a responsible way. Norway is nearly debt free and by 1994 it is possible we will succeed in further reducing our foreign debt, thanks to petroleum revenue."

In true social democratic style, Mr Stoltenberg argues that "it's not a question of eating up Norway's petroleum oil wealth, but more an issue of distribution of wealth to the benefit of society".

Zinc prices forecast to rise sharply

By Kenneth Gooding, Mining Correspondent

Efforts being made by European zinc producers to co-ordinate capacity cuts would result in one or two smelters closing by the end of next year and this would almost certainly cause a fast price rise to about 60 cents a lb, more than one third above today's level, according to Mr Jean-Pierre Rodier, chairman of Union Minière, the Belgian group that is the world's biggest zinc producer.

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+16,075	to 2,386,300
Aluminium alloy	+100	to 48,000
Copper	-1,075	to 584,750
Lead	-575	to 297,625
Nickel	+174	to 118,158
Zinc	-3,950	to 854,575
Tin	-30	to 18,470

He was speaking at a symposium organised by the Belgian Non-Ferrous Metals Federation where another speaker, Mr Philip Crowson, chief economist at the RTZ Corporation, the world's biggest mining company, was highly critical of the so-called zinc smelter "shut down" proposals.

European producers decided early this month to press ahead rapidly with the scheme, which aims to eliminate substantial over-capacity by the permanent closure of one or two smelters, the cost of which would be paid for by the industry as a whole.

Mr Crowson hit out against the scheme by suggesting: "Agreements to close down European smelters, always assuming any are concluded, will have but a limited impact if they are not accompanied by a standstill on offsetting investments elsewhere.

Mr Rodier agreed that market forces would eventually curb overcapacity, but that would take time and have brutal social consequences. "And it might not be the worst zinc smelters that close – just those where the shareholders are fed up with investing in zinc."

Scottish farm union challenges penalties for cereals overshoot

By Alison Maitland in Edinburgh

LEADERS OF Scotland's farmers are to press the UK government in London today to fight penalties imposed on them by the European Commission for apparently exceeding their cereal production ceiling.

The House of Commons is also holding an adjournment debate to discuss the penalties, which the National Farmers' Union of Scotland says will cost Scottish agriculture £20m.

The NFU accuses the commission of "blatant discrimination" for offering a scheme to allow a gradual phasing in of penalties against farmers in eastern Germany who apparently overshot their production limit, but failing to offer a comparable solution to Scottish farmers.

The problem has arisen from a discrepancy between the "base area" used by the UK government to calculate what Scotland's cereal production should be under the European Union's reformed common agricultural policy, and the actual arable area for which farmers have claimed compensation from Brussels for cuts in support prices.

Because the farmers' claims have exceeded the base area by 5.4 per cent, Brussels is reducing their compensation payments by the equivalent – £4.5m – this year.

It is also requiring them to set aside an extra 5.4 per cent of their cereal-growing land next year without any compensation, in addition to the 15 per cent set-aside for which they are paid under the CAP reforms.

The Scottish NFU says the base area was calculated using unreliable census figures from 1989-91 and that the farmers' claims, worked out using maps and precise measurements of land, are far more accurate.

"Farmers have taken a great deal of care when filling these forms in because their livelihoods depend on it," said Mr Tom Brady, deputy chief executive.

"All the evidence we have suggests there hasn't been an overshoot at all."

He pointed out that the Scottish Office had found statistical errors in the census figures that had already forced it to ask Brussels to reduce the apparent overshoot from 16 per cent to 5.4 per cent.

The farmers feel the penalties are particularly unfair given the estimated 20 per cent fall in this year's Scottish cereal output to about 2.3m tonnes, due both to set-aside and to bad weather at harvest time. "Common sense has been stood on its head," said Mr Brady. "Scotland has made the biggest percentage contribution to reducing cereals' oversupply in Europe, but still we are the only area of Europe to have substantial increases in set-aside announced."

The NFU wants the Scottish "overshoot" to be balanced against a shortfall in compensation claims by English cereal farmers to give an overall UK figure in line with target output.

But the Scottish Office, which points out that farm incomes have been boosted this year by the devaluation of sterling, is standing by its figures. "The 5.4 per cent overshoot is being confirmed by provisional census returns coming in now," said an official.

Mr David Douglas, agricultural manager for Clydesdale Bank, expressed concern about the impact of the penalties on farm profits. He added: "If this does come off, a lot of people will start to question whether they continue with set-aside or go back to farming without subsidies. It starts to defeat the object of the whole exercise."

Platinum metals fall in 'overreaction'

By Richard Mooney

Sharp falls in prices for sister metals platinum and palladium yesterday afternoon were a "wild overreaction" to an announcement of a new motor emission control system, according to Ms Rhona O'Connell, analyst at stockbroker T. Hoare and Company.

The January platinum futures price fell by 2.3 per cent and the palladium December price by 2.75 per cent at the New York Mercantile Exchange after Engelhard Corporation said it had developed technology that trapped hydrocarbon emissions during the first two minutes of vehicle operation that a catalytic converter took to become activated.

Ms O'Connell suggested this might result in an add-on to conventional emission control systems but did not appear to threaten the autocatalyst markets for the two metals.

Mr Gordon Bassett, general manager for precious metals marketing at Johnson Matthey North America, agreed. "This is not something that would effect palladium or platinum use," he told the Reuter news agency. And an Engelhard representative confirmed that the company's hydrocarbou trap would be used in addition to, rather than in place of, traditional catalytic converters using platinum group metals.

Prices for both metal recovered somewhat near the close. In late trading, Nymex's January platinum position was quoted $1.90 off the day's low at $374 a troy ounce, still $6.90 down on the day, while December palladium had edged up by 50 cents to $126 an ounce, down $3.05.

"Platinum was looking pretty weak on fundamental grounds irrespectively," Mr George Milling-Stanley, analyst at Lehman Brothers, told Reuter.

Caribbean sugar producers seek compensation

By Canute James in Kingston

Caribbean sugar producers are seeking compensation from the European Union for losses which they say they will incur because of a European Commission proposal that the EU's existing sugar regime be extended for two years to June, 1995. The Sugar Association of the Caribbean, a producers' lobby, said this week that the region's exports, and those of others in the African, Caribbean and Pacific group, which has a trade treaty with the EU, would be "damaged" by the two-year postponement of the sugar marketing protocol.

Producers should be compensated through the sugar protocol, in the way that EU's beet sugar producers are compensated for declines in their income, the association said.

ACP producers have a guaranteed market for 1.3m tonnes (raw value) per year, with their earnings linked to the intervention price paid by the EU to its domestic sugar producers.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1055-6	1076-7
Previous	1050.5-1	1072-3
High/low		1090/1065
AM Official	1057-8	1078-8.5
Kerb close		1085-6
Open int.	252,542	
Total daily turnover	45,271	

■ ALUMINIUM ALLOY ($ per tonne)

Close	933-5	957-8
Previous	931-4	955-7
High/low		960/957
AM Official	936-7	958-60
Kerb close		955-8
Open int.	2,560	
Total daily turnover	205	

■ LEAD ($ per tonne)

Close	402-3	415.5-6
Previous	400-1	413.5-4
High/low		416/414
AM Official	400-0.5	414-4.5
Kerb close		414.5-5
Open int.	25,840	
Total daily turnover	3,740	

■ NICKEL ($ per tonne)

Close	4700-5	4760-5
Previous	4690-700	4755-60
High/low	4610/4605	4815/4755
AM Official	4700-5	4765-70
Kerb close		4750-60
Open int.	47,140	
Total daily turnover	10,924	

■ TIN ($ per tonne)

Close	4605-15	4660-5
Previous	4610-5	4680-70
High/low		4690/4620
AM Official	4615-20	4665-70
Kerb close		4620-30
Open int.	14,238	
Total daily turnover	3,712	

■ ZINC, special high grade ($ per tonne)

Close	920-1	938-9
Previous	923-4	940-1
High/low		941/935.5
AM Official	919-9.5	937-7.5
Kerb close		935-5.5
Open int.	78,232	
Total daily turnover	9,220	

■ COPPER, grade A ($ per tonne)

Close	1635.5-6	1658-8.5
Previous	1643.5-4.5	1667-8
High/low	1640.5	1667/1651
AM Official	1640-0.5	1663.5-4
Kerb close		1651-2
Open int.	201,062	
Total daily turnover	32,280	

■ LME AM Official £/$ rate: 1.4772
LME Closing £/$ rate 1.4834

Spot: 1.4810 3 mths: 1.4739 6 mths: 1.4684 9 mths: 1.4638

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Nov	74.10	-0.45	74.10	74.10	400	90
Dec	74.00	-0.40	74.40	73.90	22,984	4,147
Jan	74.25	-0.35	74.40	74.40	1,362	7
Feb	74.55	-0.30	-	-	943	3
Mar	74.85	-0.25	75.25	74.60	24,063	3,715
Apr	75.10	-0.20	-	-	358	4
Total					68,799	8,247

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (Troy oz)	$ price	£ equiv.
Close	378.00-378.50	
Opening	377.30-377.70	
Morning fix	378.05	255.060
Afternoon fix	377.60	255.359
Day's High	378.10-378.50	
Day's Low	375.75-376.25	
Previous close	378.75-379.25	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month .... 2.70 6 months 2.72
2 months .... 2.71 12 months 2.74
3 months 2.71

Silver Fix	p/troy oz.	US cts equiv.
Spot	316.80	468.25
3 months	320.80	471.80
6 months	324.55	475.45
1 year	332.35	484.25

Gold Coins	$ price	£ equiv.
Krugerrand	379-382	256-259
Maple Leaf	387.65	
New Sovereign	88-91	59-62

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Nov	377.3	-1.0	-	-	-	-
Dec	377.3	-1.2	378.4	375.5	63,248	26,727
Jan	378.4	-1.1	378.5	376.8	35,201	10,899
Feb	379.4	-1.1	380.5	377.5	9,893	382
Apr	381.3	-1.1	382.2	379.9	17,872	781
Jun	383.2	-1.1	384.2	381.2	5,385	7
Total					158,747	39,071

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Nov	363.0	-	-	-	12	1
Dec	-	-	-	-	-	-
Jan	374.1	-6.8	379.2	372.1	12,833	1,278
Apr	375.8	-6.8	381.0	374.5	3,671	280
Jul	376.7	-6.8	381.0	376.8	1,480	120
Oct	378.2	-6.8	378.0	378.0	12	1
Total					17,996	1,686

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	125.80	-3.25	127.50	124.50	1,271	173
Mar	125.50	-3.25	127.50	125.50	2,693	121
Jun	124.25	-3.45	125.75	125.00	567	45
Sep	123.25	-3.45	-	-	8	-
Dec	122.25	-3.45	-	-	1	1
Total					4,446	339

■ SILVER COMEX (100 Troy oz.; $/troy oz.)

Nov	465.9	-3.1	-	-	-	78
Dec	466.0	-3.5	468.5	462.5	42,890	14,486
Jan	467.6	-3.5	-	-	43	3
Mar	470.8	-3.6	473.5	467.5	34,425	9,104
May	473.9	-3.6	477.0	471.5	7,897	147
Jul	476.9	-3.6	480.0	473.5	6,933	229
Total					103,226	24,448

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	16.79	-0.31	17.17	16.70	107,010	27,173
Feb	17.03	-0.30	17.39	16.90	49,942	11,752
Mar	17.24	-0.28	17.57	17.16	28,007	4,060
Apr	17.38	-0.30	17.72	17.38	21,139	985
May	17.57	-0.26	17.65	17.54	16,468	219
Jun	17.75	-0.22	17.90	17.68	32,758	372
Total					378,107	57,909

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	15.65	-22	15.96	15.57	71,367	20,637
Feb	15.85	-27	16.18	15.80	24,525	5,820
Mar	16.04	-26	16.35	16.04	8,671	2,186
Apr	16.27	-23	16.55	16.23	4,959	2,171
May	16.33	-35	16.66	16.33	2,354	1,226
Jun	16.74	-3	16.70	16.74	3,891	189
Total					123,146	28,332

■ HEATING OIL NYMEX (42,000 US galls.; $/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	50.80	-78	51.90	50.60	39,529	17,873
Jan	51.45	-89	52.70	51.25	61,870	17,029
Feb	51.85	-79	52.95	51.70	24,308	2,000
Mar	51.20	-84	52.40	51.10	17,509	1,860
Apr	50.78	-54	51.40	50.70	9,961	1,215
May	50.00	-49	50.70	50.00	10,285	2,809
Total					183,581	48,713

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	165.25	-200	168.00	165.00	38,891	5,113
Jan	163.50	-200	166.25	163.50	29,288	5,633
Feb	162.50	-200	165.00	162.50	15,030	1,329
Mar	161.00	-150	163.00	161.00	10,585	426
Apr	159.25	-125	161.00	159.25	4,284	325
May	158.75	-175	161.00	158.75	2,720	110
Total					111,446	13,818

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	2.380	-0.036	2.425	2.355	23,344	16,148
Feb	2.220	-0.024	2.260	2.205	12,588	3,204
Mar	2.130	-0.023	2.160	2.120	10,917	1,283
Apr	2.085	-0.024	2.115	2.085	9,430	879
May	2.090	-0.018	2.115	2.090	6,918	1,231
Jun	2.090	-0.018	2.113	2.090	6,958	493
Total					119,464	27,848

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; $/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	0.4475	-.0088	0.4600	0.4465	31,100	12,576
Jan	0.4600	-.0086	0.4710	0.4580	45,954	11,899
Feb	0.4720	-.0076	0.4810	0.4705	18,599	1,909
Mar	0.4830	-.0080	0.4920	0.4815	12,839	985
Apr	0.5170	-.0065	0.5255	0.5170	10,111	81
May	0.5265	-.0060	0.5355	0.5260	10,331	2,717
Total					133,136	30,372

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	100.30	-0.50	98.50	98.25	17	37
Jan	100.30	-	100.25	99.95	1,344	73
Mar	101.90	-0.05	101.90	101.65	1,973	188
May	103.80	-0.25	103.75	103.65	1,383	0
Jun	106.00	-	-	-	88	-
Sep	90.75	-	-	-	64	-
Total					6869	398

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	355/0	-1/4	356/4	354/0	100,705	28,455
Mar	363/6	+0/6	364/0	351/4	141,175	26,150
May	337/0	+0/6	337/4	335/4	24,070	1,585
Jul	326/4	+0/2	327/4	325/4	36,620	1,845
Sep	329/4	+0/4	330/0	329/0	1,315	5
Dec	338/0	+1/0	338/0	337/0	2,885	5
Total					296,780	61,855

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	277/6	-0/4	278/4	277/0	439,735	150,800
Mar	285/2	-	286/2	284/4	655,780	108,320
May	288/2	+0/2	288/6	287/4	248,725	31,675
Jul	287/2	-	287/6	286/4	209,620	23,345
Sep	272/2	-0/4	273/2	272/2	30,170	2,150
Dec	257/2	-1/0	258/6	257/0	114,765	14,955
Total					[illegible]	371,915

■ BARLEY LCE (£ per tonne)

Nov	104.00	-0.15	102.50	102.50	23	3
Jan	104.00	-	103.90	103.90	402	10
Mar	105.90	-	-	-	436	-
May	107.75	-	-	-	190	-
Sep	93.25	+0.55	92.55	92.55	4	3
Nov	95.00	-	-	-	10	-
Total					1,061	16

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Jan	681/6	+2/2	683/6	677/2	366,110	133,470
Mar	687/2	+3/0	689/0	682/4	161,010	31,085
May	689/0	+3/6	690/4	684/0	110,910	9,785
Jul	690/0	+3/4	691/0	684/4	110,880	12,585
Aug	686/4	+4/6	687/0	680/4	18,120	1,030
Sep	660/0	+4/4	661/0	655/4	12,965	990
Total					217,465	13,860

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Dec	26.36	-0.01	26.45	26.10	18,945	5,270
Jan	26.44	-	26.51	26.14	22,424	6,247
Mar	26.43	-0.01	26.51	26.14	21,506	2,787
May	26.24	-0.01	26.28	25.92	10,319	1,035
Jul	26.04	+0.07	26.05	25.73	7,158	1,413
Aug	25.86	+0.06	25.87	25.45	2,506	162
Total					88,058	18,016

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Dec	208.3	-0.1	208.7	207.0	22,522	7,626
Jan	205.6	+0.2	206.1	204.9	24,986	6,901
Mar	204.7	+0.5	205.2	204.0	17,521	2,677
May	204.1	+0.7	204.5	203.2	8,806	957
Jul	204.3	+0.7	204.5	203.6	8,424	853
Aug	203.2	+0.9	203.5	202.5	3,396	40
Total					84,867	21,463

■ POTATOES LCE (£/tonne)

Mar	102.5	-	-	-	20	-
Apr	88.3	-2.3	90.0	88.5	1,526	43
May	104.3	-	-	-	396	-
Jun	125.0	-	-	-	2	-
Nov	85.0	-	-	-	-	-
Mar	105.0	-	-	-	-	-
Total					1,944	43

■ FREIGHT (BIFFEX) LCE ($10/index point)

Nov	1270	+3	1270	1268	294	-
Dec	1265	+13	1265	1255	172	10
Jan	1268	+4	1275	1268	1,159	15
Apr	1273	+12	1295	1276	568	60
Jul	1161	-	-	-	227	60
Oct	1325	-	-	-	159	-
Total					2,633	145

Minor Metals
European free market, from Metal Bulletin, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.6%, $ per tonne, 1,600-1,650 (1,590-1,645). Bismuth: min. 99.99%, tonne lots 2.30-2.50. Cadmium: min. 99.5%, 0.35-0.40 (0.40-0.45). Cobalt: MB free market, 99.8%, 11.10-11.50; 99.3%, 10.30-10.70. Mercury: min. 99.99%, $ per 76 lb flask, 85-90 (90-100). Molybdenum: drummed molybdic oxide, 2.60-2.70. Selenium: min 99.5%, 4.25-5.15 (4.55-5.25). Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 27-39. Vanadium: min, 98%, cif, 1.35-1.45. Uranium: Nuexco exchange value, 9.90.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	988	-26	981	982	14,034	291
Mar	1013	-26	1035	1007	46,442	5,975
May	1015	-19	1028	1009	16,250	2,885
Jul	1014	-19	1023	1019	6,341	132
Sep	1013	-16	1019	1011	9,814	98
Dec	996	-13	1005	990	12,603	234
Total					146,035	9,710

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1215	-29	1236	1212	2,164	5
Mar	1242	-23	1248	1231	43,772	39
May	1260	-24	1264	1250	12,966	2
Jul	1278	-23	1282	1270	9,417	1,981
Sep	1288	-21	1285	1284	6,290	724
Dec	1298	-18	1292	1285	6,457	518
Total					99,228	5,328

■ COCOA (ICCO) (SDR's/tonne)

Nov. 22	Price	Prev. day
Daily	1006.62	1009.74
Nov. 23		
10 day average	958.32	947.11

■ COFFEE LCE ($/tonne)

Nov	1273	-4	1278	1271	317	67
Jan	1276	-3	1287	1270	14,380	674
Mar	1245	-	1250	1239	13,586	1,012
May	1217	+3	1224	1216	5,139	498
Jul	1217	+2	1271	1217	358	50
Sep	1214	+7	1220	1217	565	25
Total					34,495	2,284

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	78.05	+1.75	76.15	74.85	1,788	44
Mar	78.70	+1.35	79.00	77.80	35,133	136
May	80.25	+1.35	80.50	79.85	5,452	-
Jul	81.65	+1.45	81.70	80.95	1,599	453
Sep	82.90	+1.30	-	-	581	31
Dec	85.00	+1.30	84.50	84.50	317	11
Total					45,017	9,869

■ COFFEE (ICO) (US cents/pound)

Nov. 22	Price	Prev. day
Comp. daily	70.48	70.74
15 day average	69.72	69.66

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

Mar	10.43	-0.00	10.50	10.44	1,012	62
May	10.70	-0.04	10.74	10.74	692	10
Jul	10.95	-0.11	11.02	10.95	2,603	18
Oct	10.78	-	-	-	45	-
Total					4,302	90

■ WHITE SUGAR LCE ($/tonne)

Mar	277.30	+0.30	277.50	275.50	8,448	505
May	278.50	-1.40	278.00	277.10	1,510	98
Aug	282.40	-0.70	282.40	281.60	1,470	14
Oct	270.00	-0.50	270.30	270.00	1,687	4
Dec	269.60	-	-	-	77	0
Mar	271.80	-	-	-	15	0
Total					13,213	629

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	10.16	-0.09	10.28	10.15	50,133	1,527
May	10.35	-0.10	10.47	10.36	18,899	650
Jul	10.43	-0.12	10.53	10.42	13,691	195
Oct	10.37	-0.09	10.46	10.37	11,157	318
Mar	10.37	-0.09	-	-	289	-
May	-	-	-	-	-	-
Total					94,019	7,809

■ COTTON NYCE (50,000lbs; cents/lbs)

Dec	81.10	+0.27	81.70	80.83	3,846	4,075
Mar	82.59	+0.08	83.15	82.11	19,436	13,154
May	83.50	+0.08	84.10	83.10	5,722	1,613
Jul	84.35	+0.09	84.85	84.05	4,837	898
Oct	83.05	-0.07	83.10	83.05	545	97
Dec	83.19	-0.15	83.25	82.90	4,032	522
Total					37,428	10,338

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jan	105.55	-2.10	108.30	105.50	10,830	2,027
Mar	107.90	-2.25	110.75	107.70	5,127	1,025
May	110.05	-2.45	112.75	110.05	1,556	28
Jul	111.75	-2.75	112.80	111.90	501	10
Sep	112.75	-2.35	-	-	649	-
Nov	110.75	-2.35	114.00	114.00	111	1
Total					18,774	3,109

INDICES

■ REUTERS (Base: 18/9/31=100)

Nov 23	Nov 22	month ago	year ago
1621.3	1629.2	1585.5	1664.4

■ CRB (Base: 4/9/56=100)

Nov 22	Nov 19	month ago	year ago
223.71	223.49	-	202.75

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	72.825	0.675	72.400	72.775	20,614	4,709
Feb	73.325	0.850	74.125	73.200	22,630	3,425
Apr	75.675	0.850	76.250	75.800	14,215	970
Jun	73.050	0.825	73.800	73.000	11,224	1,512
Aug	71.675	0.800	72.350	71.850	4,861	337
Oct	72.300	0.300	72.350	72.150	1,408	122
Total					76,338	11,178

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Dec	45.275	0.625	45.775	45.250	6,709	2,842
Feb	47.150	0.775	47.800	47.100	9,262	1,752
Apr	47.375	0.600	47.950	47.300	3,363	693
Jun	52.850	0.550	53.075	52.600	2,510	177
Jul	52.050	0.350	52.250	51.850	544	47
Aug	50.800	0.250	51.000	50.700	515	29
Total					23,191	5,867

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	54.050	2.000	55.700	54.050	8,010	3,047
Mar	54.000	2.000	55.550	54.000	869	144
May	54.275	2.000	56.050	54.275	501	115
Jul	54.750	2.000	56.300	54.750	792	83
Aug	54.100	2.000	-	54.100	202	29
Feb	-	-	-	-	-	-
Total					8,374	3,399

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1025	44	78	11	16
1050	28	61	20	23
1075	17	46	34	33
■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
1625	41	77	23	36
1650	28	63	35	47
1675	16	51	50	59
■ COFFEE LCE	Jan	Mar	Jan	Mar
1200	90	106	14	51
1250	57	61	31	38
1300	32	62	56	117
■ COCOA LCE	Mar	May	Mar	May
925	109	121	21	31
950	91	105	28	40
975	78	91	38	51
■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1600	42	-	-	59
1650	22	46	66	-
1700	11	28	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jan) +or-

Dubai	$13.79-3.84	-.315
Brent Blend (dated)	$15.23-5.25	-0.10
Brent Blend (Jan)	$15.58-5.60	-0.29
W.T.I. (1pm est)	$16.73-6.76z	-.365

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$167-169	-1
Gas Oil	$171-172	-1
Heavy Fuel Oil	$60-61	+0.5
Naphtha	$150-153	-0.5
Jet fuel	$186-138	-2

Petroleum Argus Estimates

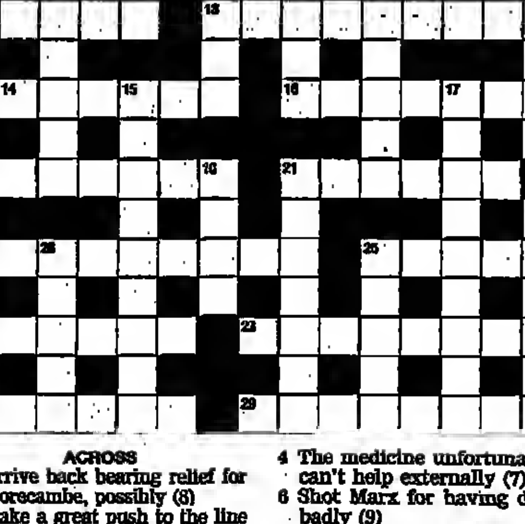
■ OTHER

Gold (per troy oz)♣	$376.25	-2.75
Silver (per troy oz)♣	464.5c	-7.0
Platinum (per troy oz.)	$375.90	-1.95
Palladium (per troy oz.)	$126.25	-1.75
Copper (US prod.)	79.5c	
Lead (US prod.)	32.75c	
Tin (Kuala Lumpur)	N/A	
Tin (New York)	213.50c	-2.50
Zinc (US Prime W.)	Unq	
Cattle (live weight)†	118.58p	+0.46*
Sheep (live weight)†♣	86.93p	+1.17*
Pigs (live weight)	69.77p	-0.01*
Lon. day sugar (raw)	$259.20	-2.90
Lon. day sugar (wte)	$286.40	-0.60
Tate & Lyle export	£286.50	-3.00
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£123.0	
Wheat (US Dark North)	£175.0	
Rubber (Dec)♥	60.25p	-0.25
Rubber (Jan)♥	60.50p	-0.25
Rubber (KL RSS No1 Jul)	206.0m	
Coconut Oil (Phil)§	$480.0t	
Palm Oil (Malay.)§	$362.5	
Copra (Phil)§	$317.5	
Soyabeans (US)	£203.0x	-2.0
Cotton 'A' Index	55.85c	
Wooltops (64s Super)	350p	

£ per tonne unless otherwise stated, p pence/kg, c cents/lb, r ringgit/kg, m Malaysian cents/kg, y July/Sep, z Aug, v Sep/Oct, u July, t Dec/Jan, x Nov/Dec, ♥ London Physical, § CIF Rotterdam, ♣ Bullion market close, ♣ Sheep (Live weight prices). * Change on week, provisional prices.

CROSSWORD

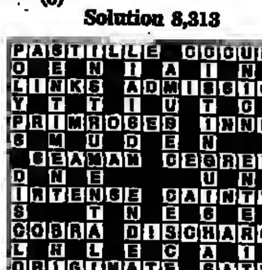
No.8,314 Set by ADAMANT



ACROSS
1 Arrive back bearing relief for Morecambe, possibly (8)
5 Make a great push to the line – what a scoop! (6)
9 Fish to be thrown outside as past the sell-by date (8)
10 Trip taken as orgy breaks out (6)
12 Put a stop on American money order (5)
13 Food and drink, thanks, outside the joint (9)
14 £51 converted into cash (6)
16 A report on arms, dishonestly obtained (7)
19 The summit of Bretton Woods, perhaps? (7)
21 A testing time for the gold trade (6)
23 One who keeps an eye on "The World at Night" (9)
25 Came back on August Bank Holiday with some fertiliser (5)
26 The bad feeling of having wasted time around New York (6)
27 He violates half a dozen in less temperate surroundings (8)
28 Public transport round the university – a shocking experience (6)
29 Did I lose out when made a pin-up? (8)

DOWN
1 Best quality selection (6)
2 I object to including Frenchman in new series to hold everyone's attention (8)
3 Robot produces the beer in Scandinavian country (5)
4 The medicine unfortunately can't help externally (7)
6 Shot Marx for having done badly (9)
7 Oil spilt in Virginia – what a bloomer (5)
8 Non-professional rubbish could be devastating (3,5)
11 Hit the shoulder on part of the house (4)
15 It's the last word (9)
17 The problems of having top people around each organisation (9)
18 Take firm steps before conservationists get clamorous (8)
20 Double standard takes one in (4)
21 No credit over? Difficult then to get the farm (7)
22 Beastly old car concealed outside (6)
24 Mother's come back with degree in dance (5)
25 One hundred and forty four suffering at the barbecue (5)

Solution 8,313



JOTTER PAD

FINANCIAL TIMES SURVEY

Fishing industry: EU membership takes its toll.... Page II

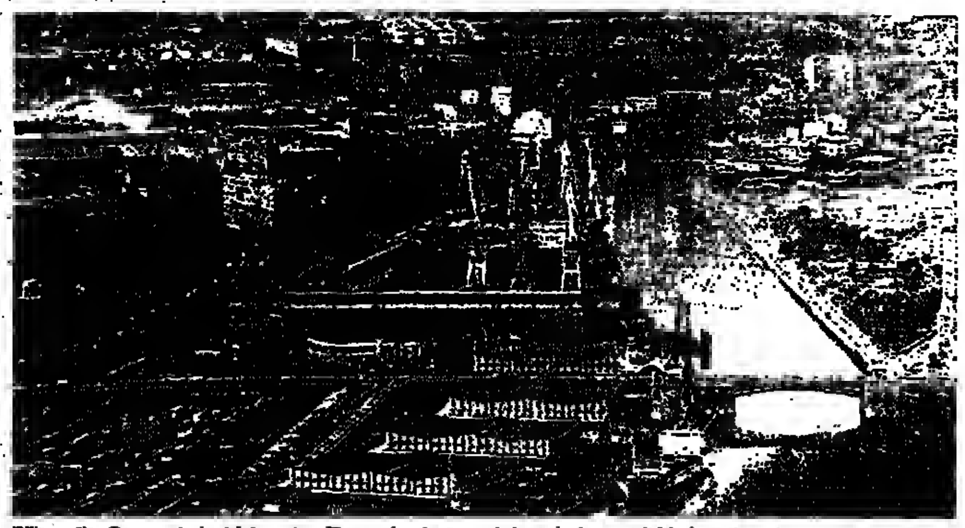
THE BASQUE COUNTRY

The economy: a 'complicated' recovery is forecast.... Page III

Wednesday November 24 1993

The Basque Country is at a cross-roads politically, socially and economically. It faces the challenge of recognising its own pluralism and of diversifying its economy – and it has the opportunity to establish an efficient dialogue with Madrid. Tom Burns reports

Cross-roads opportunity



Bilbao, the Basque industrial centre. The region has much to gain from outside investment Picture: Ashley Ashwood

The Basque Country has some of the worst slums and some of the most unspoilt, richly forested valleys in western Europe. It embraces wholly obsolete industrial plants and greenfield sites devoted to technological innovation. It has been hit harder by recession than anywhere else in Spain and yet it is the home of an energetic business community and the headquarters of top national corporations.

Politically, the Basque Country suggests just as many contrasts and contradictions as it does socially and economically. It is governed by a coalition formed by two rival parties who have agreed on a joint programme. The partnership is, nevertheless, an uneasy one and the political climate swings from confrontation to consensus with extraordinary ease.

Broadly speaking, the Basques are wholly integrated because they are legendary "joiners"; they group together in e myriad institutions, from sporting clubs to dining societies and associations of mushroom pickers. But terrorist violence has cast a long shadow over Basque society and deeply divides it.

Out of a population of just over 2m, some 500 members of the Basque separatist organisation Eta are presently in prison. Probably twice as many associates of the terrorist organisation live abroad, and the number of Basqnes who over the years have been detained or jailed in connection with terrorism must run into five figures.

Everybody in the Basque Country has first-hand knowledge of Eta; many live in threat of its racketeering. While there is a fearful, silent majority, increasing numbers are speaking out against the terrorists.

Many Basques support Eta's violent struggle for independence, however. Herri Batasuna, (People's Unity), the radical coalition which backs the gunmen, gained 174,000 votes in June's general elections; some 50,000 more than in the 1989 poll, although its share of the total vote slipped from 17 per cent to 15 per cent. Political stability in the Basque Country ultimately depends on a negotiated solution to the Eta problem.

Politically, socially and economically the Basque Country is at a cross-roads. Obsessively rooted in its Basque identity, an exclusive, ethnic identity in its more extreme manifestations, and excessively dependent on its steel-manufacturing sector, it now faces the challenge of recognising its own pluralism and of diversifying its economy.

The deep love and respect for the Basque Country's special nature, for its language, its culture and its traditions, which so many in the area share, should not become a tribal battle call to arms that sets off one section of the community against the other.

Blessed with excellent communications, the best cuisine in Spain and, in San Sebastian, arguably the finest seaside resort city in Europe, the Basque Country has much to gain from opening itself out to others, not least to foreign tourists.

With its industrial tradition and its highly-skilled labour force, the area has even more to gain from outside investment – investment that at the turn of the century formed the core of the Basque Country's industrial muscle. But there will be no meaningful foreign takers for the local opportunities while the often irascible and sometimes violent Basque nationalist climate persists.

The Basqua Country's arrival et a cross-roads is timely in as much as Spain itself, on the political and economic level, faces a watershed of its own.

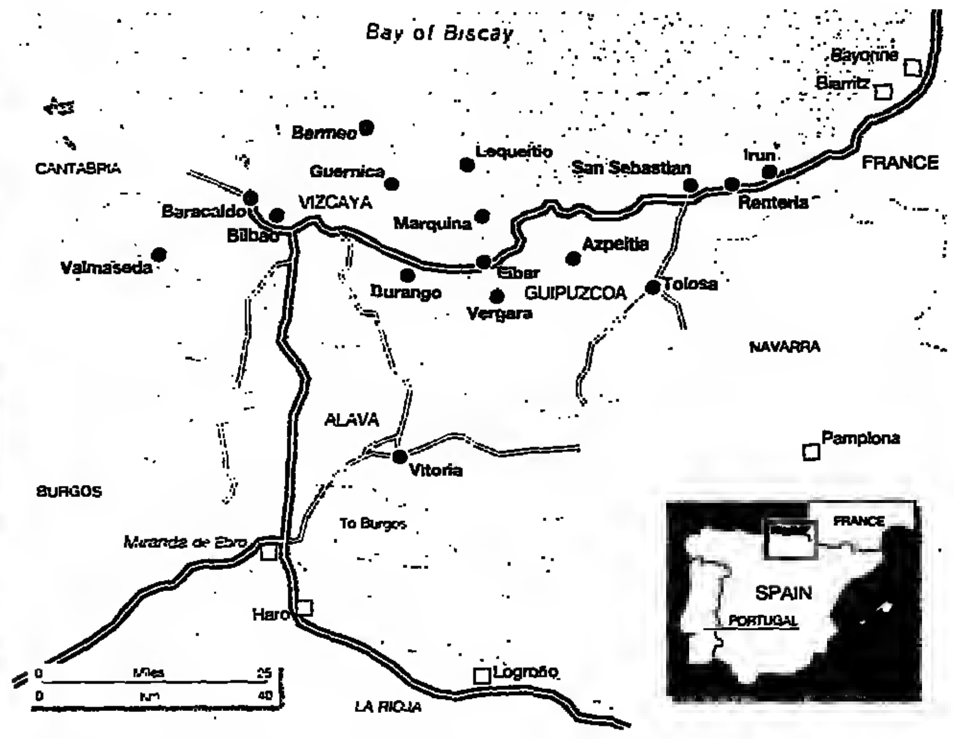
The general elections last June left Mr Felipe Gonzalez, the prime minister, short of an overall majority and his minority government has heen forced to seek alliances with nationalist parties, notably with the Basques.

The economic recession has, meanwhile, prompted the government into overhauling the lahour market rigidities that have in no small way contributed to the decreasing competitiveness of Basque industry

Precision industry at a technology park near Bilbao. Report, Page III

The twin issues of a oew political arrangement, involving a form of cohabitation with the nationalists, and of deregulation, involving a loss of trade union power, can – if they are properly addressed – help the Basque Country a great deal as it seeks a sure route towards recovery.

Initial negotiations between the Basque Nationalist Party, which leads the Basque government. and Mr Gonzalez's socialists in the Madrid central government have not been encouragiog. The Basques played too strong a hand as they hurriedly sought to extract home rule prerogatives in return for supporting Mr Gonzalez, and they were turned down.



Despite the early misunderstandings and the ill-tempered exchanges that accompanied them, the talks have not been broken off. Mr Gonzalez is still seeking a stable pact – ideally with nationalists, both Basque and Catalans, in his cabinet – that will ensure the survival of his government.

There are, therefore, grounds to expect that home-rule wrinkles will he ironed out, and with them the aggrieved and irritable rhetoric which has traditionally characterised the mainstream Basque nationalists.

A spell as junior partners in a Madrid coalition government will certainly help the Basque Nationalist Party to shake off its narrow localism. It should also aid Spaniards to lose the suspicions they harbour about the Basques as a whole as a consequence of Eta terrorism.

The planned overhaul of labour market rigidities by the Madrid government meanwhile appears tailor-made for the Basque Country's recession-hit industry. With its numerous small plants, employing up to 25 workers, the Basque Country urgently needs flexihle labour practices that allow for functional mobility and labour force adjustmeots.

Current legislation, which applies to the Basque Country as it does everywbere else in Spain, is weighted towards fixed employment and makes dismissals costly. This legislation has been arguahly the most important factor in deterring investment, in raising unit labour costs and, in the final analysis, fuelling the rise of johlessness in Spain.

Unemployment levels in the Basque Country are higber than the national average.

The Basque government should also be able to use the lead given hy Madrid with its decision to imposa wage restraint and, in particular, to freeze public sector salaries next year in order to reduce the spiralling public deficit.

In one of the least satisfactory aspects of autonomous governments in action, civil servants in the Basque government, including teachers and members of the Basque security forces, earn far higher salaries than do their Madrid central administration counterparts.

ELA-STV, the Basque trade union which wields strong power in the white collar sector, is sticking out for exactly what the Basque economy does not need: 6 per cent wage rises, more public sector johs and shorter working hours.

At present the Basque Country cannot afford the luxury of inflationary union deals any more than it can waste time on the finer points of home rule prerogatives.

It must take the route which establishes an efficient dialogue with Madrid. That will help restore competitiveness to its economy and in so doing solve the tension-ridden contradictions of its community.

■ THE FISHING INDUSTRY

EU membership takes toll

Fishing is much more than an industry or pastime in the Basque Country. And consuming fish is much more than a means of satisfying hunger.

For a Basque, catching a fish is more of a historical right, an assertion of culture. To prepare and eat a fish is more the culinary equivalent of high art than mere cooking.

But, as with many other aspects of Basque life, the impact of Spain's membership of the European Union is being felt in this most traditional of Basque activities. The region's fishing industry has been forced to curtail its operations, as has the fishing industry in the rest of Spain. But for the Basque Country, with unemployment levels officially approaching the 30 per cent mark, any contraction of such a traditional industry is bound to have serious economic and social consequences.

Spaniards on average eat 43kg of fish annually; more than the citizens of most other EU member states. In overall terms, the fishing industry has historically diminished in its importance to the Basque Country's economy to the point where it now contributes not more than 1 per cent of gross domestic product.

"However, there are coastal areas where the population depends almost entirely on fishing, populations where if fishing disappeared then so too would the population," says Mr Jose Ignacio Espell, deputy director of fishing in the Basque regional government, based in Vitoria. "They are places where fishing contributes more than 25 per cent of the local GDP."

The most immediately visible impact of the EU on the Basque Country's fishing industry has been the reduction in the number of fishing vessels; down from 748 in 1984 to about 580 now. Basque fishing boats represent about 3 per cent of the total Spanish fishing fleet. The diminution is a direct result of EU-imposed quotas.

"In the 1970s, there were 200 fishing vessels from the port of Pasajes alone that fished in EU waters. Today, there remain just 38. The cod fishing fleet of Pasajes, which fishes in Canadian waters, had 100 ships. Now there are 24. So the EU decisions about quotas and shipping numbers were, for us, very bad," says Mr Espell.

Spain overall had 19,451 fishing vessels, the largest such fleet in the EU, at the end of January 1992.

Fishing vessels in San Sebastian's harbour: an assertion of culture

But besides the limits imposed on the number of vessels, the EU implemented other restrictions too; on what types of fish the vessels could catch and on where they might seek shoals of fish.

"They [Brussels] put us in a corset," says Mr Espell. "But at least we have one good thing: fishermen – people who know how to fish! Basque fishermen have managed to find jobs elsewhere, for example in the French fleets."

Mr Espell is critical of the way in which the EU has handled his country's fishing fleet, but at the same time he exudes the kind of Basque pragmatism that has sustained the region through many difficult political and economic times.

"I always say the same thing. We have been very pressured, with enormous restrictions placed on us. I say that we do not ask for advantages, but nor do we want to be discriminated against. And I think the EU has understood that, because it now speaks of a single-speed European fishing policy.

"Right now there has been a two-speed policy: that of the other 10, and that of the two, Spain and Portugal. From 1996 there will be a single-speed policy, for all," says Mr Espell.

From 1996 what Mr Espell describes as the EU's "discrimination" against Spain and Portugal will disappear, "because once Norway enters the EU it will be absurd for there to be three different fishing policies: a third one for Norway."

Despite his objections to EU policy so far, Mr Espell nevertheless believes that it is far better to be inside the EU than outside, since non-EU members will, he believes, progressively find their own fish exports more discriminated against in the future.

The EU is re-writing the regulations for Spanish and Portuguese fishing, and is due to produce a new policy for the two countries by January 1 1994 to be implemented two years later.

According to Mr Espell, the new policy will "mean that the two can fish on the same basis as the other 10 EU members."

But that will not mean growth in the Basque Country's fishing industry, or that of Spain as a whole, thinks Mr Espell. "At the moment the fishing policy of the EU says that it is necessary to adapt the fleet to the fish resources. We are all conscious of the need to do that, and so there is no way we will increase the size of our fishing fleet. What it does mean, however, is that we will be able to renovate our old fleets and improve them, though not increase their size. We will just be able to fish on equal terms with the rest of the EU."

There still remains the problem of imports to the EU from non-EU members. "This has done a great deal of damage to all the EU fleets, including ours," says Mr Espell. "For me it represents a kind of social dumping. Under EU regulations we must pay minimum salaries and guarantee other kinds of benefits, but certain non-EU countries don't have those kinds of rules. That allows them to sell their fish at a fifth of the price.

"I want to compete, but I cannot compete on that basis."

Gary Mead

■ POLITICS

Suspicion-fraught alliance

The Basque Country needs restful political consensus and then a restorative sense of common political purpose like an all-night reveller needs 12 hours sleep and a strong pick-me-up. Unfortunately it has neither such balms.

Politics in the Basque Country are criss-crossed by demarcation lines that have historically fractured the area's political framework and created a plethora of tribal groupings. Superimposed on the classic division between left and right is the confrontation between the nationalists and the non-nationalists.

The nationalist camp itself is divided between those who support violence and those who oppose it and the latter are themselves split between those who settle for home-rule autonomy and those whose final aim is independence.

The area's two main political parties, the Partido Nacionalista Vasco (PNV), and Partido Socialista de Euskadi (PSE), the Basque subsidiary of prime minister Felipe Conzalez's ruling socialist party in Madrid, share just under 50 per cent of the Basque vote between them and form a PNV-led coalition government in which mutual suspicions abound.

Were the PNV and the PSE marriage partners, each would sue the other for divorce on the grounds of mental cruelty for they could hardly be less suited as a couple. The PNV is nationalist, sentimentally rural, conservative and Roman Catholic; the PSE derides ethnic politics, prides itself on its trade union origins in Bilbao'e industrial belt and styles itself as modern, progressive and emphatically secular.

Mr Ramon Jauregui, the Basque socialist leader, admits thet "a certain amount of expectation" envelops the local political scene. When, in Madrid recently, Mr Gonzalez opened talks with the main national opposition party, the centre-right Partido Popular (PP), the PNV behaved as if it were a scorned bride. Do the socialists think, asked the nationalist leader Mr Xavier Arzallus, that the PNV is "a concubine who can be trifled with?"

The PNV, which holds 10 portfolios in the 16-member Basque government including that of chief executive, is to a great extent in a quandary of its own making. It was invited by Mr Gonzalez to join the national government in Madrid as a junior coalition partner after the general elections last June left the prime minister short of an absolute majority. But it rejected the invitation and now it appears to wish it had not done so.

Somewhere between the invitation and its rejection, the PNV seemed to have peered over its nationalist shoulder and lost its nerve; the very idea of propping up a Madrid government filled it with dread. It was fearful of losing its nationalist credentials to the radical Herri Batasuna (HB), the coalition which supports Eta and, more plausibly, of handing over votes to Euska Alkartasuna (EA), a minority party lead by former, and more uncompromisingly nationalist, PNV members.

The PNV's hesitancy had a lot to do with the staging of local Basque elections which are due in October next year. Unlike the PSE, which appeals basically to non-nationalists, Mr Arzallus' PNV has to contend with splinter groups such as EA and with solid formations, such as HB – the third-biggest political party in the Basque Country – that dispute the strictly nationalist constituency.

Negotiations to join Mr Gonzalez's government broke down when the

Somewhere between the invitation and its rejection, the PNV seemed to have lost its nerve

PNV tabled a long agenda – the final list totalled 54 separate chapters – of home rule prerogatives that it demanded be urgently transferred from the Madrid administration to the Basque government. That was the price that the nationalists set for co-operation with Madrid and Mr Gonzalez judged it far too expensive.

Certain PNV home rule demands – which deal, for example, with jurisdiction over vocational training – can be granted immediately, because the Basque government already runs its own education department. Others, including transfer to the Basque Country of responsibility for health and social security and for unemployment benefits, involve costly and complex administrative adjustments.

A third chapter of devolutionary demands that seek to establish local control over airports and harbours in the Basque Country fall into a grey area in which it is not constitutionally clear where the prerogatives of Madrid end and those of the autonomous governments begin.

A final shot of self-rule ambitions came in the form of a demand for a Basque central bank, a monetary institution that would supervise and regulate the local financial sector and which would clearly undermine the responsibilities of the Bank of Spain. The adamant opposition of the PSE to this pretension has further soured the relationship between the coalition partners.

In the delicate negotiating process that followed the June 6 general elections and which led to the ultimate formation of a minority government by Mr Gonzalez, the PNV played for high stakes and it lost. Now it is in the uncomfortable position of being stuck with the socialists in the autonomous Basque government and being unable to play any meaningful role in the socialist-run central government. The situation is all the more galling for the mainstream Basque nationalists because the Catalan nationalists, who are the PNV'e clone party on the periphery of Spanish politics, proved themselves infinitely better negotiators. The Catalans also rejected overtures to join Mr Gonzalez's government but they have cunningly supported the Madrid government's draft budget, influenced much of the blueprint's proposals and, as a result, ensured fiscal benefits for their Catalonia stamping ground.

The PNV'e obduracy earns it a bad press in Madrid whereas the suave Catalan practise of the art of the possible is hailed as statesmanlike. The problems facing Mr Arzallus' PNV are not, however, at all easy.

The Basque Country's mainstream nationalists do not have the ascendancy in their home base that their Catalan counterparts enjoy and, unlike Catalonia, the Basque Country has a federal-type administration in which power is shared between the Basque government and the county councils of the three provinces that make up the Basque Autonomous Community.

Consensus politics has never been the PNV'e strong point but its brinkmanship tactics have failed and its options are now running out. Concessions have to take the place of confrontations and the wintery realities of economic recession should cool nationalist ardours and shelve devolution agendas for the time being.

The likelihood is that elections next year to the 75-member Basque parliament will once more return the PNV and the PSE as the main parties but will again leave the two of them well short of a majority, thus forcing them into a renewed coalition. What the Basque Country cannot risk is a continuation of the present suspicion-fraught alliance.

Tom Burns

■ Eta political violence

Problem has become an internal issue

What sets the Basque Country apart from any other corner of the European Union except Northern Ireland is that it has a terrorist problem.

Eta, an acronym for Euskadi Ta Askatasuna, Basque fatherland and liberty, has been shooting, bombing and kidnapping for the better part of 25 years and is directly responsible for more than 800 deaths.

Political violence in the Basque Country is on a lesser scale than it is in Northern Ireland and there are no troops patrolling the streets of Bilbao in order to keep warring terrorists, as in Belfast, apart from each other.

Basque violence is not sectarian; moderate Basques, who constitute a large political majority, find common cause with the security services against the radicals and the gunmen.

The qualitative difference is, however, of little comfort to those who work and invest in the Basque Country. Businessmen employ private security guards as a matter of course and they live in dread of an extortion racket known as the revolutionary tax.

Political violence has deterred investment and prompted plants to close and transfer their business out of the Basque Country.

There are two main, and interconnected, points to be made about the violence factor:

- it is on the wane although it remains lethal and will continue to exist for the foreseeable future;
- it has become an internal Basque problem as opposed to one between Madrid and the Basque Country.

"The situation is better than it used to be and the Basque government is making an enormous effort to give the impression that this is all being normalised," says Mr Jose Miguel de la Rica, president of the business pressure group Circulo de Empresarios Vascos. "But then you get a murder or a kidnap and then everything goes to the devil."

In June, seven military officers were killed by a car bomb in Madrid and in October two Eta gunmen shot an air force general dead outside his Madrid home. A sure sign of Eta's continued muscle came with the release last month of a Basque businessman who had been kidnapped in July, following the alleged payment of a Pta300m ransom.

The violence continues despite suggestions that the police are gaining the upper

France has been acting energetically for some years against refugee gunmen across the Spanish border

hand. In recent months revolutionary tax rings have been broken up, gunmen arrested and arms caches seized. Although Eta is regularly reported to be out for the count – some 500 of its members, including more than a dozen of the group's more notorious leaders, are in prison – it appears, time and again, to pick itself off the canvas.

"The strategy is the right one but the process is long and slow," says Mr Ramon Jauregui, the Basque Country's socialist leader who has a long experience of the terrorist issue. "We have to be very careful in order to maintain the initiative."

The initiative was nearly lost in September when the deaths of two Eta suspects while in police custody served to bring underlying tensions to the surface and prompted wide-scale rioting.

Few fault the Madrid government, the local Basque government and the police forces of the two administrations over the way they go about their business. The strategy involves close co-operation between them and also with the French government and its security services. France has been acting energetically for some years now against refugee gunmen across the Spanish border and the one-time Eta safe havens in south-west France had been effectively neutralised.

The prison policy is an intelligent one. Under a new strategy, Eta members have been transferred from two maximum security jails where the hardliners ran highly regimented communes. They have been dispersed among more than 20 prisons where they share cells with common criminals.

The key consequence of the dispersal policy is that jailed terrorists who have no stomach left for the fight and are relieved of the commune pressures are able to apply for individual pardons. "We can only afford to give such amnesties drop by drop," warns Mr Jauregui.

The main reassuring feature of the strategy is that a grassroots movement is gathering force in the Basque Country that publicly rejects Eta's violence. That Basques are now willing to stand up and be counted reflects the groundswell of opinion that sees continued violence as futile as well as profoundly damaging to the local economy.

This grassroots rejection was boosted by the long kidnap endured by Mr Julio Iglesias Zamora, whose family-owned San Sebastian engineering company had failed to pay the gunmen's revolutionary tax. Thousands of Basques wore blue ribbons to show their support for Eta's victim and numerous well-attended rallies were staged to demand his release.

The protest movement was quite unprecedented but it fell short of its objectives: Mr Iglesias Zamora was released last month only after Eta had extracted the ransom and the police failed dismally to trap the kidnappers. Moderate Basques feel, however, that it was not in vain.

"A short while ago nobody talked out against Eta and now they do," said an official in the ruling Partido Nacionalista Vasco (PNV). One sign of changed times is the manner that members of Herri Batasuna (HB), Eta's political front organisation, have been forced to stop going to a restaurant they used to patronise near their Bilbao headquarters.

At the height of the kidnap saga and of the blue ribbon movement, the restaurant's management decided to stop serving the radicals after other clients began to go elsewhere. In the tight world of Basque politics, where everybody knows everybody else, the restaurant boycott was hailed as a victory over the tyranny of violence and the story of HB stalwarts sending out for sandwiches is gleefully retold.

In the final analysis, Basques seem to have woken up to the fact that Eta is their problem and that its solution lies with them. It is no longer a side show involving headstrong members of their community and the Madrid security forces.

The lesson is sinking in that the endemic political violence is making the burden of recession in the Basque Country much harder to bear. Eta's revolutionary rhetoric is out of touch with the times and its Freedom-for-the-Basque-Country platform is at odds with the area's now well-consolidated home rule.

Throughout the Basque Country, Madrid-based security forces are being withdrawn and their place taken by the Ertzaina, the police force that is recruited, trained and paid for by the local Basque government. Increasingly, it is the Ertzaina which is leading the baton charges to break up pro-Eta rioters and which is claiming counter-terrorist breakthroughs, particularly on Eta's extortion racket.

Mr Juan Maria Atutxa, the Basque government minister who is responsible for security and the chief of the Ertzaina, has taken a tough line against the radicals. This has made him the most popular politician for the majority of the Basque population and also the target of an HB hate campaign. Posters and graffiti that term Mr Atutxa "traitor" have replaced those that used to accuse Madrid's Interior minister of "genocide".

In itself this is a telling development that underlines how Eta violence has become an internal Basque issue which the Basque government is determined to address. Mr Atutxa, who is a member of the PNV, is as Basque as it is possible to be – he was born in a rural hamlet, spoke Euskera, the Basque language, from birth and has been an ardent nationalist all his life.

No less indicative of the new climate is the manner in which members of Mr Atutxa's Ertzaina who are posted to strong pro-Eta areas, particularly in San Sebastian's Guipuzcoa province, have been known to suffer the same hostility and pressures that the Madrid-based Civil Guard used to endure: their car tyres are punctured, their wives are refused service by radical-minded shopkeepers and their children are abused in the local schools.

The polarisation of Basque society over Eta is an uncomfortable step but it is nonetheless one in the right direction. Eta will only be curbed when its supporters realise that they are not taking on Spaniards and Madrid but their own neighbours in their own backyard.

Tom Burns

■ THE ECONOMY

'Complicated' recovery forecast

Economically speaking, what is good for Spain is better for the Basque Country and the reverse is just as true. With the Spanish economy now entering its second year of recession, the Basque economic indicators look worse than they do elsewhere in the country.

The third-quarter 1993 report issued by Bilbao's business think tank, the *Circulo de Empresarios Vascos*, sombrely notes that there is no sign of any brakes to arrest the falling industrial demand and, much less, of recession bottoming out. It concludes that recovery in the Basque Country will be "more complicated" than in other areas of Spain.

The industrial activity index for the Basque Country in May, the latest available statistic, fell by 4.7 per cent which was in line with the negative growth recorded for the past two years and the year-on-year fall in industrial activity stood at the end of that month at 10.1 per cent.

A breakdown of the Basque Country's recession data gives worrying statistics. The steel sector, which accounts for 44 per cent of the area's industrial activity, fell by 10.9 per cent in May to give a 12-month drop of 16.3 per cent. Bilbao's estuary, once the pulsating hub of heavy Spanish industry, is now an industrial wasteland, arguably darker and more satanic than anywhere in the developed world.

"Before people used to talk about profits and investments and now when you get two businessmen together they will swap stories about how they are reducing their payroll," says Mr Jose Miguel de la Rica, chairman of the Circulo think tank. Profits, when they exist at all, are uniformly down and the investment is ploughed into paying off redundancies.

The labour shakeout is aimed principally at containing losses and not at improving productivity. Companies are offering early retirement to those aged 55 and they are sacking those under 30 who are mostly employed under temporary contracts and are cheaper to dismiss.

The Basque Country's economy is the victim of deceptive successes in the past

Unemployment stood at 23.2 per cent of the Basque Country's active working population in the second term of this year, according to the Madrid-based Statistics Institute's labour survey. This figure, which gave a jobless total for the area of 201,240, was marginally above the national average; it was a shocking set of data for what was once, scarcely 20 years ago, a full employment area.

The Basque Country's economy is the victim of deceptive successes in the past when it used to draw cheap labour from the rest of Spain to transform steel and to manufacture ships and capital goods for the protected Spanish market. It caught pneumonia when it was blasted by the cold winds of competition.

"We were stripped naked when we entered the European Community," says Mr Jose Maria Gorordo, a former mayor of Bilbao and now the chief executive of the city's Chamber of Commerce. "We would have been better off if we had been left with our old clothes."

The Basque Country's problem was that its old clothes, its obsolete heavy industry built around the Altos Hornos de Vizcaya steel plant, was exactly what Brussels had no use for.

Cut-backs imposed by Europe were exacerbated by domestic difficulties, chiefly the over-valued peseta of the 1980s and the high interest rates that kept the currency high. These factors, coupled to industrial disputes and soaring wage rises, turned meaningful restructuring and diversification into an endless obstacle course for the top Basque companies.

Small companies, the area's pride and joy, have scarcely fared better. Specific sectors, such as car components, are flat and overall they face the toughest competition possible. "We are on the frontline of the south-east Asia challenge," Mr de la Rica observes with a shrug.

There are examples of the challenge being met. Employees of a local plant that manufactures sewing machines and was being undercut by a Taiwan rival were faced with the stark choice of earning less or producing more. They chose to work a six-day week. A recurring positive theme in all presentations of the local economy is that the Basques constitute one of the most industrious labour forces around.

The second asset is the drive of its business community. When a 40-strong team of Basque entrepreneurs went to Cuba recently one of them travelled with pots of paint and a fistful of brushes which he personally used to spruce up a hairpin-producing plant that he had opened a year earlier in Havana.

"That's the mettle we are made of," says Mr Marcos Vizcaya, an official of the ruling PNV party who has known the hairpin manufacturer since childhood.

Such enterprise can, however, stumble over the absence of capitalisation. Because of terrorism, as well as the often violent industrial relations environment, foreign investment has mostly given the Basque

The presence of good financial resources means there are a number of bright lights

Country a wide berth and there has been an equivalent shortage of Spain-based funds.

As a result, capital raising has often to be done within the Basque community and the Basque Country is fortunate to have in its midst far-seeing venture backers in the local savings banks and in Banco Bilbao Vizcaya which has an umbrella industrial holding, the IBV corporation, which it shares with the electrical utility Iberdrola.

Despite the recession and the internal problems, the presence of such financial resources means there are a number of brights lights pointing to an economic future for the Basque Country.

CAF, a railway rolling stock manufacturer that has its main plant in Beasain, broke even in 1991 after many years of losses and turned in net profits of Pta1.5bn last year which it put aside for reserves. The company, which is 35 per cent owned by the three Basque savings banks, currently has an order book worth Pta77.7bn – 35 per cent of which has been earned outside Spain.

A second clear example that all is far from lost in the Basque Country is Camesa, a Vitoria-based weapons producer that has branched out into new materials, microelectronics and environmental engineering, now earns 50 per cent of its revenues outside Spain and is one of the most successful ventures backed by IBV.

Even in the steel industry, the foundation of the Basque Country's past wealth, there are companies that have specialised intelligently, have begun to export aggressively and are making money. The top trio in this all-important sector are Aristrain which makes long products, Guivart which produces steel bars, and Tubos Reunidos which manufactures seamless pipes.

It will nevertheless take a while yet before the once finely-tuned engine of the *Basque economy begins to climb into the* higher gears.

Tom Burns

■ INDUSTRY

High-tech glimpse of the future

About eight miles outside Bilbao and just a stone's throw from the city's airport lies the Zamudio technology park, occupying 320 acres of beautiful countryside. "But the technology park is not just a collection of nice decorations, pretty furniture and pleasant fields," says Mr Juan Martin, one of the park's senior managers, "Its soul is the 'software'; the quality of the people who work here."

In many respects, industry in the Basque Country is in a transitory phase, with the Zamudio park and other high-tech developments indicating what the future could be like: a shift from the old traditional metal-bashing industries to electronics, bio-technology, and communications.

Zamudio's 37 companies are mostly small-scale, 25 of them employing fewer than 20 people each. But there is every chance that from these acorns some strong oaks will grow.

The reason for that confidence is the unique strain of proud Basque self-identity which in commercial spheres becomes interfused with an attitude of mutual co-operation.

The Basque Country's former predominance in industrial production within Spain overall is vulnerable as a result of recession and overseas competition. But it still accounts for 6.2 per cent of Spain's gross domestic product and 10.7 per cent of Spanish exports, although the region has just 5.4 per cent of the Spanish population.

Another factor which benefits Basque industry is the massive level of government subsidy and services support. The creation of an office of

SPRI provides loans at 4 or 5 per cent interest for up to 70 per cent of total investment

strategic investments in the Basque government in November 1992, with a determination to generate more than 8,000 jobs through targeted investments totalling Pta33bn, under the so-called Garapen Plan, is a clear indication of Basque government determination to shelter local industry against the worst excesses of international competition and recession.

That extends to stepping in where the banking system is reluctant or unable to tread. SPRI [Sociedad para la Promocion y Reconversion Industrial, or the society for industrial promotion and reconversion] is the Basque Country's development agency, created in 1991 and 91.4 per cent owned by the Basque government's economy ministry.

SPRI provides loans at 4 or 5 per cent interest – several points lower than present bank rates in Spain – for up to 70 per cent of total investment. According to the president of SPRI, Mr Jon Azua, industrial production fell by 4.5 per cent in 1992 compared with 1991, with the loss of 20,000 jobs. Production of industrial plant goods fell by 10.8 per cent.

SPRI's role is to try to staunch that kind of haemorrhage by providing a plethora of action plans, investments, studies, subsidies and cheap loans in an attempt to strengthen regional business and also attract foreign companies to set up in the Basque Country. SPRI will provide up to Pta1.2m per job created in subsidy to participating companies which guarantee the creation of a minimum of 50 jobs and invest at least Pta500m of their own. For companies which create between 50 and 500 jobs, with investments of between Pta500m and Pta4bn, it will subsidise up to 40 per cent of the investment.

SPRI can also arrange tax exemptions for up to 45 per cent of new investments for existing companies and up to 100 per cent of corporation tax for new companies for a period of 10 years. It will subsidise up to 58 per cent of qualifying research and development programmes and up to 100 per cent of training plans. And to encourage foreign investment, SPRI has set up outposts in nine other nations, including the US and Japan.

But the spirit of mutual assistance does not stop with government support. Elkargi, founded in 1980 and with 639 member companies in 1981, is now an association of more than 6,000 Basque companies. Elkargi's main purpose is to take financial risks which large commercial banks are unhappy with, by acting as a guarantor of loans made by the banks to small and medium sized companies.

From guaranteed loans of Pta633m in 1981, the association in 1992 provided guarantees for Pta9.8bn, with a bad debt rate of 1.45 per cent of all guarantees made.

What of the immediate future? For Mr Jose Urcbegui, general secretary of Adegi, the employers' association of the Gipuizcoa, with 1,600 member companies representing 60,000 employees, the urgent need is to increase within the Basque country's companies a sense of the *importance* of *thinking not* just nationally but globally – and to ensure that tomorrow's employees have received the best training possible.

To that end Adegi has been instrumental in a highly innovative educational-training scheme called the Machine-Tool Institute, sited at Elgoibar, some 55 kilometres from Bilbao. The institute – funded entirely by local companies – takes school-leavers from throughout Spain and provides them with a sophisticated apprenticeship in advanced machine-tool technology, as well as language courses and business administration training. It has some 400 students but by running courses of different lengths it reckons on about 1,000 students – full time and day release – passing through its doors each year.

The institute's core aim is to ensure that the students receive hands-on training on the very latest equipment, thus maintaining the Basque Country's traditional strengths in machine-tools. Fifty per cent of Spain's machine tool production is exported, two-thirds of that to industrially developed countries such as the US, France and Germany, according to Mr Alberto Ortueta, general manager of the Spanish machine tool manufacturers' association. "We don't have much in the way of natural resources in the Basque Country – we don't have minerals or mining. Our basic asset here is the human being," says Mr Urchegui.

"*What we are doing here is* to try to make sure that professional training is not just a matter for the schoolroom but is also something which companies occupy themselves with.

The Machine-Tool Institute is an experiment, the result of an agreement between the business sector and the Basque government. There are companies here which need particular types of trained staff yet cannot find them amongst school-leavers."

Gary Mead

■ Profile: Mondragon Co-operative movement

Important group

There can be little stronger evidence of the spirit of co-operation which infuses Basque industry and finance than the manufacturing groups of the Mondragon Co-operative Corporation.

The MCC has its roots in the work of Father Jose Maria Arizmendiarrietta, the Basque priest who inspired the development of the first of Mondragon's co-operatives, Ulgor, in 1956.

Tucked away high in the mountains of the Guipuzcoa district, the MCC has grown in the past 37 years from being a single manufacturer of white goods into a leading diversified group employing a total of 25,322 people, with total turnover in 1992 of almost Pta4bn.

The MCC, now the most important business group in the Basque Country and ranking 15th in the whole of Spain, boasts some 90 separate companies, according to Mr Javier Mongelos, president of the MCC's general council, its governing body.

Of its three divisions – financial, industrial and distributive – the industrial arm is by far the most important. Its manufacturing base includes machine tools, automotive components, electronics, construction parts and domestic appliances of all kinds.

In 1992 the industrial division achieved a turnover of more than Pta2bn, 25.5 per cent of which was in exports, an increase of just 1 per cent over 1991. Given that industrial output was down by 1.7 per cent in Spain overall, and by 4.1 per cent in the Basque Country in 1992 against 1991 – as a result of the international recession – that performance must be seen as impressive.

In Spain overall, the machine tool sector saw a 20 per cent drop in production in 1992, compared with 1991. Yet MCC machine tool exports actually increased by 1.6 per cent in 1992, compared with a 14 per cent drop in this export market for Spanish machine tool manufacturers generally.

But Mr Mongelos hopes that the recession may be passing its peak. He believes 1993 may see the industrial division's exports grow by an average of 15 per cent compared with 1992, whila its production overall will be about 3 per cent greater than in 1992. He thinks total turnover for the whole corporation could reach Pta5bn for 1993.

Mr Mongelos says that the organisation has gone through a lengthy and continuing process of "reconstruction and elaboration of its future strategy."

Spain's EU membership has meant that the previously protected market for much of the MCC's products has disappeared.

"The competition is no longer with other Spanish manu-

The immediate difficulty, says Mr Mongelos, is one of catching up with the past

facturers but with Siemens-Bosch, Electrolux and so on; companies which are perfectly capable of operating in a global market," says Mr Mongelos.

The immediate difficulty, not just for the MCC but for Spain in general, according to Mr Mongelos, is one of catching up with the past.

"It's impossible for a country or an industry which was isolated for 50 years from international competition to adapt itself to complete world competition in 6½ years. This metamorphosis, done in such a short time, has also not been accompanied by other transformations which are necessary *for a truly competitive environment*.

"Of course, here in the Basque Country we have certain advantages, particularly in the Mondragon *Corporation*, because the benefits or otherwise of productivity go directly to the person who works; the owner of the company is the same as the person who has to work there."

In other words, the Mondragon enterprises have tba advantage of flexibility, of being able to change according to the needs and pressures of the markets, without having to engage the massive bureaucracias of Spain's employment laws and trades union opposition.

According to Mr Mongelos, the MCC's co-operative nature means that people behave reasonably because they are all kept well informed about the ups and downs of their own enterprise.

"We don't have strikes, for example. When there is a problem then a general assembly is organised to sort it out."

At the same time, unemployment within the MCC is almost *non-existent. Unemployment* is defined as more than 100 hours a month without work – a working month has 170 hours – and the unemployment figure within the corporation is now about 200 people.

"The Basque Country is a poor country, without its own natural resources. We have to import everything. It's also a country which traditionally has seen a lot of emigration, to other parts of Spain and other countries. Life has normally been very hard for the people who live here, and the only way they could get out of that hardship has been to work. The co-operatives grew out of this culture of poverty, of difficulty," *explains Mr Mongelos*.

"The future for the corporation must be one of further adaptation to this new world of international competition; one in which all the protective measures which existed either have disappeared or are disappearing. One of the implications of that is that the small and medium companies, which have worked well here in the past, will not do so in the future in Europe. They don't have the financial, or research and development capacities to compete.

"But it is also necessary to alter our customs, our management practices and our attitudes – and *that's* a very complicated business," adds Mr Mongelos.

Gary Mead

A COUNTRY ON THE MOVE

BASQUE COUNTRY • EUSKADI

The fascination of the past

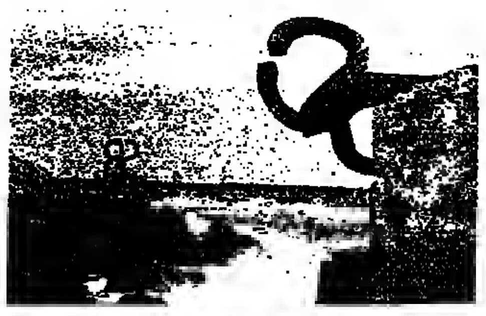
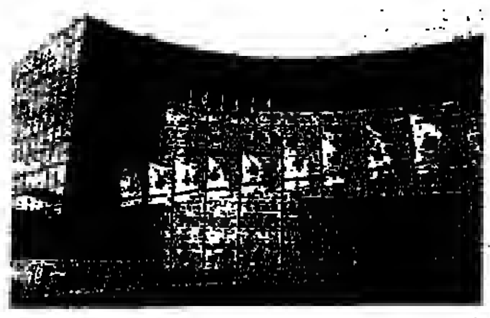
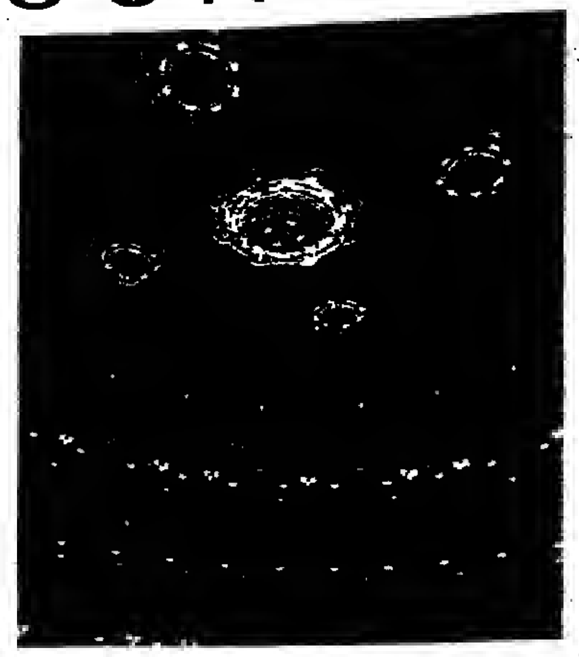
The history of the Basques is inextricably bound up with euskara, the ancient Basque language which, alone among European languages, has survived almost unchanged since prehistoric times.

The oldest prehistoric remains in the Basque Country date from the lower Paleolithic, and the first references to settlements in the area take us back to Cromagnon man, some time around 50,000 BC. The exact oringins of the Basques and their unique culture, flourishing today among the younger offshoots of European civilization, remain a mystery. The language and the people have grown together from roots buried deep in the past.

The past itself remains a powerful and fascinating presence in the Basque Country: the dolmens, gothic cathedrals, prehistoric cave paintings, superb palaces and renaissance buildings scattered around the country are a constant reminder of a remarkably long and rich history.

The birth-place of Ignatius of Loyola, Miguel Unamuno and Eduardo Chillida offers a wide range of cultural interests in fine theatres, concert halls and art exhibitions which provide a showplace for the latest and best in local and international creative work.

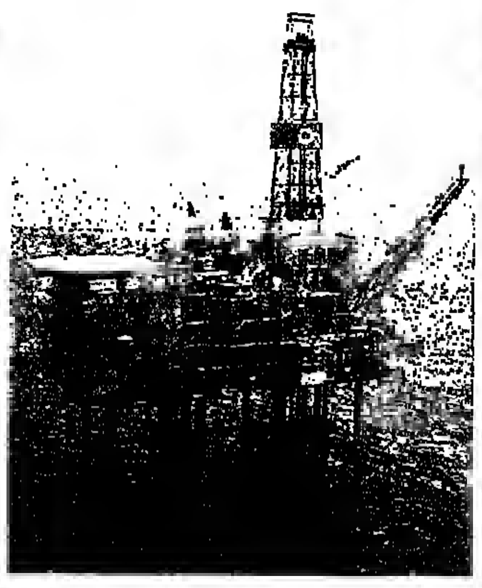
All this with the added bonus of one of Europe's most remarkable peoples, makers and custodians of an unusual and highly distinctive culture.










Looking to the future

A superb geographical setting, rich, fertile countryside and the unending capacity of its inhabitants for hard work: three important reasons that explain why the Basque Country has been a major business and industrial centre for more than a century and why it has dominated the Spanish economy throughout that time.

Today, the unstinting efforts of public institutions and the private sector, fully aware of the need to update technology, to further develop existing communications and telecoms infrastructures, to diversify, to use energy more efficiently and to improve product quality constantly, and, above all, to provide training and recycling programmes to ensure that our workforce moves with the times, are the best guarantee of the Basque Country's capacity to take on its new role as industrial and financial capital of Europe's south western Atlantic seaboard region.



BASQUE COUNTRY

NB POWER

to proceed.
In the Ukraine, unable and ... Electricité de France, told the

LONDON STOCK EXCHANGE

MARKET REPORT

Interest rate cut catches traders wrong-footed

By Terry Byland, UK Stock Market Editor

The stock market was caught on the wrong foot yesterday morning by the ½ percentage point cut to 5.5 per cent in the Bank of England minimum lending rate.

Share prices, which had opened lower in the face of a further setback on Wall Street overnight, spent the rest of the session trading through a range of 40 points on the FT-SE 100 Index, which ended the day not far from its overnight level.

While the overall reception for the interest rate cut, which was swiftly followed by the lending banks, stock market traders admitted to a "very difficult session." Genuine retail investors often found problems in trying to deal at wildly fluctuating share quotations as market makers traded between equities and an equally excitable stock index sector.

The final reading put the FT-SE Index at 3,069.3, down 1.3. The Index was down to 3,050.6 ahead of the interest rate announcement, then soared to 3,090 before falling closing nervously after Wall Street made a poor start to the new session. The FT-SE Mid 250 Index closed 3.8 up at 3,439.2, reversing an early fall.

The uncertain response on the trading screens, which inspired a leap in Seaq volume to 667.1m shares from Monday's 455.2m, contrasted with the more positive reception accorded by market strategists to the base rate cut. On Monday, retail business fell below £1bn, effectively for the first daily session for several months.

While caught out by the timing of the move, which appeared to have been prompted by trends in London money markets, analysts acclaimed the decision both as a favourable indicator of Budget plans and as confirmation that further reductions in base rates are likely.

"It indicates that London markets have decoupled from the New York Treasury markets," said Mr Ian Harnett at Strauss Turnbull. He sees UK interest rates at 5 per cent by the year-end. At Kleinwort Benson Securities, Mr Trevor Laugharne was equally positive, believing that although the next half point cut might not come until early January, rates could be down to 4 per next later next year.

By the close of trading, international stocks, including ICI, Glaxo and BAT Industries were not far from overnight levels, but reacting with caution to a Wall Street market then in the process of reversing its opening gain. Oil stocks edged higher, however.

But the domestic, interest-related, stocks traded a more uncertain path. Bank shares, which respond readily to base rate optimism because it lightens their bad debt burdens, moved sharply before closing with mixed changes. Store and retail issues tried to move ahead but failed to hold their best levels.

The favourable attitudes from market analysts were slow to work through to the equity trading desks, where dealers remained unsettled by the outlook for both the Japanese and US stock markets. Throughout the session, UK equities were led by the December contract on the Footsie, and the setback suffered late in the afternoon came when the future fell to a discount.

Yesterday, London had to cope with the absence of a lead from Tokyo overnight and the prospect of a New York market slowing down for the Thanksgiving Day holiday.

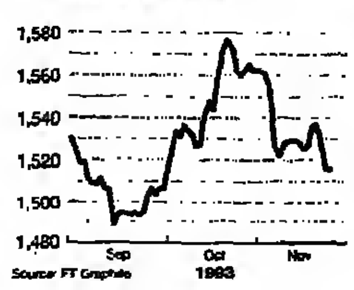
Traders said there was a general unwillingness to take on stock positions in the international blue chips which might prove difficult to unravel until next week.

Account Dealing Dates

*First Dealings:	Nov 15	Nov 29	Dec 13
Option Declarations:	Nov 25	Dec 9	Dec 30
Last Dealings:	Nov 26	Dec 10	Dec 31
Account Day:	Dec 6	Dec 20	Jan 10

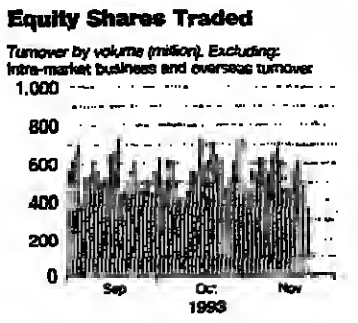
*New time dealings may take place from two business days earlier.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key indicators

Indices and ratios

FT SE 100	3069.3	-1.3	FT Ordinary index	2328.0	-0.2
FT-SE Mid 250	3439.2	+3.8	FT-A 500 p/e	19.72	(19.69)
FT-SE-A 350	1532.6	-0.1	FT-SE 100 Fut Dec	3067.0	nc
FT-A All-Share	1517.06	-0.35	10 yr Gilt yield	6.72	(6.75)
FT-A All-Share yield	3.76	(3.75)	Yield ratio:	1.93	(1.94)

Best performing sectors		Worst performing sectors	
1 Water	+1.2	1 Merchant Banks	-1.5
2 Building Materials	+1.0	2 Banks	-1.4
3 Transport	+0.9	3 Hotels & Leisure	-1.1
4 Oil & Gas	+0.9	4 Financial Group	-0.9
5 Electricals	+0.8	5 Engineering-Aerospace	-0.9

Thorn fails to please

Disappointment over the dividend payout at Thorn EMI sent the shares tumbling and prompted a series of downgrades and some cautious pronouncements from leisure sector analysts.

First-half results were at the lower end of market forecasts, although there were some bright spots, particularly in the music division. However, the impressive, albeit patchy, results were accompanied by an unchanged dividend, prompting concerns over the short-term outlook for the stock. One analyst commented: "The company has sent a very confusing message to investors – reasonable results and a disappointing dividend. People are worried about the near-term news flow."

This includes official inquiries into compact disc prices in the UK and US, potentially harmful legislation in the US over Thorn's rental business and continuing losses at its unwanted defence business. "Thorn is next year's story," said Mr Bruce Jones at Smith New Court, who cited flat full-year earnings and the looming uncertainties as reasons for marking the shares a hold. They closed a hefty 35 down at 914p, although analysts pointed out that the stock had had a good run. Market forecasts for the year came back to a range of £238m to £248m.

Nthn Foods easier

A gloomy message from Northern Foods, accompanying otherwise acceptable results, sent the shares scurrying downwards, although they rallied towards the end of a turbulent session. They closed 4 off at 225p in busy trade of 2.7m.

Food manufacturing analysts said the cautious statement was in keeping with a downbeat post-results meeting, in which the company said tough price pressures from the first half increased in the second. Downgrades quickly followed, with the market range some 10 per cent lower at £155m to £162m.

Wellcome upset

Pharmaceuticals group Wellcome saw its share price fall 7 to 623p on turnover of 2.8m, with securities house UBS active in two-way business.

UBS is a buyer of the shares arguing that they are the cheapest in the pharmaceuticals sector. However, dealers said it also took some sizeable sell orders.

There was little fundamental impetus in the market to sell the shares but some analysts pointed to an article in the trade press on a rival treatment to Wellcome's anti-Aids treatment Retrovir.

News of the decision to launch an inquiry into the Net Book Agreement hit J. Menzies hard, sending the shares down 13 to 559p. W.H. Smith recovered from its initial hit, closing just 2 down at 457p. Pentos slipped 3 to 36p. Dixons, ahead 3½ to 270p, and MFI, up 3 at 140p, were said to be the main rate cut beneficiaries.

Results from Allied Lyons came in line with expectations and the shares drifted away slightly to close 3 down at 568p. Brewing was again shown to be tough, with the various participants locked in a struggle for market share. Pressure on Allied may prove beneficial to Bass, up 2 at 471p and Scottish & Newcastle, down 3 at 469p.

Leisure analysts said the main beneficiary of the base rate cut appeared to be First Leisure, the nightclub and tenpin bowling company. The shares climbed 11 to 245p, with Credit Lyonnaise Laing reiterating its buy recommendation.

MARKET REPORTERS:
Christopher Price,
Peter John,
Steve Thompson.

■ Other statistics, Page 21

A sell note from Robert Fleming Securities, focusing on worries about the company's ability to grow the dividend, saw BT shares sharply underperform the FT-SE 100 index, closing 5 down at 457½p after above average turnover of 8.1m shares. The partly-paid settled the same amount off at 205½p on turnover of 6.9m.

Dealers said the market had absorbed bouts of selling pressure late on Monday thought to have been triggered by suggestions of a bearish broker note. Most of the selling in the market occurred early yesterday, they said, as institutions took on board Flemings' views that BT's dividend growth "looks set to slow over the next three years and that from 1996/7 onwards the probability is that BT'ds dividend growth will be in low single digits, around 2.5 per cent according to Flemings, with unchanged dividends in poor years."

Mr Laurence Heyworth, Fleming telecoms analyst, pointed out that the recent dividend warning from Iain Vallance, BT's chairman, had caused a slight reduction in market expectations for BT's dividend growth but warned clients "we take it more seriously."

Interim figures from Vodafone, the UK's leading cellular telecoms group were by no means in excess of general market expectations but were accompanied by a half-point reduction in UK interest rates, a move which transformed the rest of the UK equity market.

Vodafone shares fell back from on overnight 520p to touch 515p at the outset of trading, before embarking on a strong upwards move after the rate cut and the profits and dividend news.

Profits of £74.5m were at the top end of the market range, while the interim dividend, of 4.12p, a rise of 20 per cent, was at the very top of the range and was given a warm reception across the board.

The oil and gas sector was in much better shape yesterday, as the market responded to the cut in UK interest rates, which drove the market higher, and hopes that the Opec meeting in Vienna, which commenced yesterday, will see member states agree on a 0.5m barrels a day reduction in overall output to the 24m b/d level.

An agreement on such a cut is by no means clear cut, but has to be done to stabilise oil prices," said one UK-based oil specialist, who said the cuts would be achieved "in bits and pieces across the board."

Shell attracted keen support, closing 5 up at 686p, ahead of the important presentation to UK oil analysts today. Shell addressed US oil analysts last Friday and will face a meeting of Dutch-based specialists on December 2.

BP rose 4¼ more to 343½p as fears of the imminent sale of the Kuwait Investment Office's 9.9 per cent stake, continued to subside. Enterprise jumped 6 more to 454p.

International conglomerate Hanson failed to benefit from yesterday's interest rate cut although the stock is often bought for its yield attractions. The shares closed unchanged at 277p.

Textiles conglomerate Bodycote International fell 23 to 256p with dealers saying that Smith New Court had cut its forecasts. Smiths was unavailable for comment but Kleinwort Benson, the broker, said it was also preparing to reduce its earnings estimates.

Exhibitions organiser Blenheim fell 19 to 323p on critical comment after the group announced a management reshuffle on Monday.

■ NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (81). [illegible]

NEW LOWS (27). [illegible]

Data based on those Companies quoted on the London Share Service.

EQUITY FUTURES AND OPTIONS TRADING

Evidence that the Bank of England and UK chancellor caught London's markets unawares when they announced a cut in base rates was provided by the derivatives markets yesterday, writes Peter John.

The futures contract on the FT-SE 100, which expires on December 17, saw exceptionally heavy turnover of more than 22,000 contracts as dealers raced to adjust their books.

The rush to get back into the market via the futures saw a turnaround of some 60 points between the high and low points of the day.

Worries that US investors were poised to repatriate funds had led to a Europe-wide stock market slide. Dealers expected further weakness yesterday and when the December future opened it traded down more than 20 points to 3,046.

When the half-point cut in base rates was announced, December futures turned round to hit 3,104. Then, profit-taking in the afternoon saw the contract tick back to 3,067 by the official close – exactly where it started in the first place.

At that level it was at a discount to the cash market in contrast to the estimated fair value premium of some 6 points. Although fair value premium takes account of interest rates it will not change as it is calculated on three-month money rather than actual base rates.

Options saw slightly reduced turnover of 47,700 lots, against 50,700 on Monday, with hedge buying of FT-SE puts contributing heavily to turnover of the Footsie options. Land Securities was the most actively traded stock option (2,832 lots) followed by Thames Water (2,128).

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3063.0	3067.0	-0	3104.0	3046.0	24762	58574
Mar	3081.0	3084.5	-0.5	3118.0	3067.5	2086	11571
Jun		3094.5	-0.5				951

Contract traded on APT. Open interest figures are for previous day.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3069) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

TRADING VOLUME

■ Major Stocks yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	12,000	51½	-1
Abbey National†	6,300	401	-2
Albert Fisher	4,400	60	-2
Allied-Lyons†	2,000	568	-3
Anglian Water†	2,200	637	+10
Argos	463	333	+5
Argyll Group†	3,600	266	-2
Arjo Wiggins†	640	231	+1
Assoc. Brit. Foods†	670	500	+4
Ass. Brit. Ports	170	486	+4
BAA†	714	933	+7
BAT Inds.†	4,000	490	-4
BET	1,800	128	
BICC	257	390	+10
BOC†	1,500	617	+7
BP†	7,000	343½	+4½
BPB Inds.	698	263	+3
BT†	8,100	457½	-5
BT (P/Pd)	6,900	205½	-5½
BTR†	8,800	348½	-3
Bank of Scotland†	3,400	186	-3
Barclays†	7,000	548	-13
Bass†	2,300	471	+3
Blue Circle†	3,600	315	+5
Booker	978	403	+2
Boots†	4,100	522	+3
Bowater†	1,000	438	+5
Brit. Aerospace†	1,400	415	-6
British Airways†	5,800	413	+4
British Gas†	7,300	322	+3
British Land	236	416	+1
British Steel†	9,800	118	-1
Bunzl	964	130	
Burmah Castrol†	548	734	-8
Burton	1,700	68	+½
Cable & Wire.†	6,900	460	+8
Cadbury Schweppes†	1,700	447	-4
Calor Group	123	297	-1
Caradon†	1,400	332	+3
Carlton Comms.†	1,700	789	+10
Coats Viyella†	1,800	260	+3
Comm. Union†	2,100	588	+2
Cookson	1,000	203	-1
Courtaulds†	790	423	-4
Dalgety	425	450	-1
De La Rue	740	798	+2
Decrma	4,800	270	+3½
Eastern Elect.	678	602	+5
East Midland Elec.	1,100	575	+3
Eng China Clays	1,000	414	+5
Enterprise Oil†	782	454	+6
Eurotunnel Units	52	436	+3
FKI	1,800	161	-2
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

FT - SE Actuaries Share Indices — The UK Series

	Nov 23	Day's chge%	Nov 22	Nov 19	Nov 18	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3069.3	-0.1	3070.6	3108.0	3125.5	2727.1	3.67	5.70	21.74	67.78	1118.95
FT-SE Mid 250	3439.2	+0.1	3435.4	3453.3	3452.5	2819.0	3.54	5.74	21.18	68.10	1243.59
FT-SE Mid 250 ex Inv Trusts	3437.8	+0.1	3435.4	3452.1	3447.9	2823.1	3.66	6.17	19.90	60.40	1238.79
FT-SE-A 350	1532.6	-0.1	1532.7	1549.2	1558.7	1317.9	3.70	5.71	21.61	42.81	1143.62
FT-SE SmallCap	1741.40	-0.2	1745.03	1753.50	1757.29		3.18	3.90	35.14	39.85	1317.02
FT-SE SmallCap ex Inv Trusts	1719.87	-0.1	1724.88	1731.00	1735.34		3.36	4.36	28.53	41.92	1302.60
FT-A ALL-SHARE	1517.06		1517.41	1533.12	1539.37	1292.39	3.76	5.80	22.15	41.91	1154.07

■ FT-Actuaries All-Share

[illegible]

■ Hourly movements

[illegible]

■ FT-SE Actuaries 350 Industry baskets

[illegible]

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. [illegible]

LONDON EQUITIES

LIFFE EQUITY OPTIONS

[illegible]

TRADITIONAL OPTIONS

First Dealings	Nov. 22	Last Declarations	Feb. 24
Last Dealings	Dec. 3	For settlement	March 7

3-month call rate indications are shown in Saturday editions.

Calls: Aminex, Amstrad, Electron Hse, Glenchewton, Hanson Wts., Kewill Systems, Letham (J), Minmet, Molyneux, Navan Res., Selec TV, Signet, Tusker Res. Puts: Glenchewton, Kewill Systems, Tiphook, Transfer Tech. Puts & Calls: Aminex, Amstrad, Aveco, Navan Res., Smithdine Beach A.

RISES AND FALLS YESTERDAY

[illegible]

Data based on those companies listed on the London Share Service.

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FINANCIAL TIMES EQUITY INDICES

[illegible]

LONDON SHARE SERVICE

AMERICANS

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICALS - Cont.

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

to proceed.
In the Ukraine, unable and Electricité de France, told the

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES - Cont.

INVESTMENT COMPANIES

MEDIA

MOTORS

OIL & GAS

STORES

PACKAGING, PAPER & PRINTING

MINES

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and *accounts and, where possible, are updated on interim figures. P/Es are* calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- ✦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation on listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- ¶ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ◆ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ◆ Unregulated collective investment scheme.

a Yield based on annualised dividend b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. p Rights issue pending q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings v Not subject to ACT. z Dividend yield includes a special payment E Auction basis F Yield based on prospectus or other official estimates for 1994-95. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1993. K Yield based on prospectus or other official estimates for 1992-93 L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1993-94. N Figures based on IIMR 'Headline Earnings' draft proposals. P Figures based on prospectus or other official estimates for 1994. R Forecast annualised yield, p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring 081 643 7181 (open 24 hours including weekends) or fax 081 770 3822, quoting the code FT7030. (If calling from outside UK, dial +44 81 643 7181 or fax +44 81 770 3822) *Reports will be sent the next working day*, subject to availability. If faxing please remember to state the weekly changing FT code above and also your post code.

FT Cityline

Up-to-the-second share prices are available by *telephone from the FT Cityline service. See Monday's share price pages for details.*

An international service is available for callers *outside the UK, annual subscription £250 stg.*

Call 071-873 4378 (+44 71 873 4378, international) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♠) - 1401 to 1700 hours; (♣) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Sun Alliance Unit Tst Mngmt Ltd - Contd.

Sun Life of Canada Unit Mgrs Ltd (1000)H

Sun Life Trust Mngmt Ltd (1200)H

NatWest Investment Management Ltd

PDFM Unit Managers Ltd

INSURANCES

OTHER UK UNIT TRUSTS

Barclays Life Assur. Co Ltd - Contd.

Black Horse Life Assurance

Combined Life Assurance Co

Commercial Union Group

General Portfolio Life Insce Plc - Contd.

Legal & General

Manchester Unity Assurance - Contd.

Pearl Assurance - Contd.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

J Rothschild Assurance PLC

Scottish Provident Group

Sun Life Unit Assurance Ltd

MANAGEMENT SERVICES

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

IRELAND (REGULATED)(**)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Midland Bank Fund Managers (Jersey) Ltd
PO Box 26, St Helier, Jersey

Prudential Fund Managers (Jersey) Ltd
PO Box 103, St Helier, Jersey
Prudential Currency Fd (formerly Vanbrugh Currency Fd)

For Royal Trust and Royal Bank of Canada

Royal Bank of Canada (Jsy) Fd Mgt Ltd
PO Box 194, St Helier, Jersey

Standard Bank Fund Mgmt (Jersey) Ltd
PO Box 583, St Helier, Jersey CI

TSB Trust Funds (CI)
PO Box 536, St Helier, Jersey

Barclays Diversified Portfolio
14 rue Aldringen L-1118

Barclays Inv Funds (Luxembourg)
61 Avenue de la Gare L-1611

CMI Asset Management (Luxembourg) SA

Jupiter Tyndall Global Fund
19 rue Goethe L-1637 Luxembourg

Kleinwort Benson Japanese Warrant Fund
14 rue Aldringen Luxembourg

Kleinwort Benson Select Fund (u)

Capel-Cure Myers Intnl Fd Sicav (u)

Citicorp Investment Mgmt (Luxembourg) SA

Clemente Korea Emerging Growth Fund

Credit Commercial de France

Credit Lyonnais Rouse (Bermuda) Ltd

Credit Suisse

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

NICAM Asia Pacific Umbrella Fund

CCC International

Group One International Tst

Pacific Growth Fund

MANAGED FUNDS NOTES

CURRENCIES AND MONEY

MARKETS REPORT

Lire dives, pound firms

Europe once again captured the currency market's limelight, with the Italian lire plunging to a new historical low against the D-Mark while sterling rallied on the Bank of England's surprise rate cut, *writes Conner Middelmann.*

Early in the day, the Bank of England surprised markets by announcing that it was setting its minimum lending rate at 5.5 per cent, signalling a half point cut in British base lending rates from 6.0 per cent. While the size of the reduction had been largely discounted, the timing came as a surprise, with most expecting a rate cut along with or just after the November 30 Budget.

After the announcement, sterling jumped to a high of DM2.5285 on relief that the cut did not exceed the widely discounted 50 basis points and on hopes that the move would help boost the country's economic recovery. Sterling closed at DM2.5275, up from DM2.5125 on Tuesday.

Few traders expect another cut around Budget Day, especially since the Treasury press release accompanying the move stated that the cut had taken full account" of Chancellor Kenneth Clarke's budgetary measures.

However, many market participants still expect another ½-point base-rate cut in the next few months in view of encouraging inflation developments and sterling strength following continental European easing.

"Continental European interest rates have substantially further to fall than rates here, and that will continue to lend support to sterling," said Mr Brian Martin, senior economist at Citibank in London. He is calling for another ½-point cut in the base rate in December or early January, and expects sterling to trade in a DM2.50 to DM2.55 range over the next few weeks, "with a bias to the upside."

The short sterling December futures contract rose 0.04 point to 94.60.

● The Italian Lira put on a dramatic performance, slumping to a new record low against the D-Mark on heavy selling at the open and clawing back some of its losses in the afternoon.

It hit a low of L1,005 early in the day but recovered in the course of the session on short-covering to close at L994.5, down from Monday's close of L987.7.

Sunday's municipal elections, where the ruling Christian Democratic Party suffered a crushing defeat at the hands of right and left-wing parties, fuelled investor fears over the passage of Italy's 1994 budget and the political outlook ahead of next year's national elections. That prompted a rash of foreign selling, sending bonds, stocks and the currency into a downward spiral.

But some observers said the sell-off has been overdone and should be used as a buying opportunity.

"The markets have lost sight of the structural improvements in the economy, and with Italian assets now cheap, positions should be established in anticipation of outperformance in coming months," said Mr Keith Edmonds, chief analyst at IBJ International.

Around L1,000, the currency is "clearly undervalued," he added. Mr Edmonds expects the currency to recover on the back of economic growth against the background of recession-bound Europe and said further gains are likely as investors adjust to the new political groupings.

● The D-Mark remained relatively well supported by tightness in the money market and Monday's higher-than-expected M3 money supply numbers which damped some traders' hopes for near-term German rate cuts.

In the domestic money market, the rate for overnight interbank funds firmed further as monthly tax outflows continued to drain liquidity and banks' reserves at the Bundesbank dropped again. Some traders also pointed out that continued buying of D-Marks by the Bank of France to shore up its foreign currency reserves was keeping the German money market tight.

By midday, the call rate had firmed to around 6.45 per cent, up from Monday's 6.40 per cent, although the Bundesbank rolled over the Paragraph 17 funds it had injected on Monday.

The funds - government monies on deposit with the Bundesbank that it can lend to the market to ease liquidity bottlenecks - were offered at a rate of 6.40% and traders estimated some eight to 10 billion marks of the funds to be in the system.

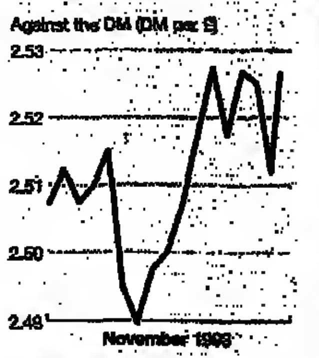
Dealers hope that today's allocation of 14-day securities repurchase agreements at a fixed 6.25 per cent will alleviate the shortage, though they caution that large liquidity inflows next week - including public-sector salaries bloated by Christmas bonus payments - may mean the Bundesbank will err on the tight side, preferring to rely on Paragraph 17 injections where necessary.

● Meanwhile the dollar drifted lower, testing the downside of its recent range against the D-Mark. Trade is expected to remain thin and erratic ahead of tomorrow's Thanksgiving holiday, with most US traders expected to leave their offices around Wednesday's European close. The dollar closed at DM1.7010, down from DM1.7035 on Monday and at Y108.50 against the Yen, up from Y108.25 on Tuesday.

● The Finnish central bank lowered its tender rate to 6.88 per cent from 7.09 per cent. The rate, which governs commercial banks' borrowing with the central bank, was last changed on November 16.

Sterling

Against the DM (DM per £)



Source: Datastream

■ Pound in New York

Nov 22	—Latest—	– Prev. close –
£ spot	1.4840	1.4755
1 mth	1.4805	1.4722
3 mth	1.4766	1.4678
1 yr	1.4626	1.4536

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Changes shown for July 1. Base average 1980/82=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

■ D-MARK FUTURES (IMM) DM 125,000 per DM

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

■ STERLING FUTURES (IMM) £62,500 per £

EMS EUROPEAN CURRENCY UNIT RATES

Nov 23	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.16257	-0.00059	-2.01	4.68	-
Germany	1.94964	1.91889	-0.00078	-1.80	4.13	-
Ireland	0.808628	0.800325	+0.000414	-1.03	3.52	7
Spain	154.250	155.302	+0.488	0.68	1.75	-5
Belgium	40.2123	40.6699	-0.149	1.16	1.26	-9
Portugal	192.854	195.523	-	1.38	1.08	-8
France	6.53883	6.65816	-0.0106	1.83	0.62	-15
Denmark	7.43679	7.61963	+0.00427	2.46	0.00	-17
NON EMS MEMBERS						
Greece	264.513	275.291	+0.473	4.07	-1.55	-
Italy	1793.16	1914.38	+18.26	6.76	-4.03	-
UK	0.786749	0.760290	-0.000939	-3.36	6.02	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.425	4.99	5.43	5.84	0.11	0.69	1.36
1.450	2.61	3.65	4.21	0.40	1.40	2.20
1.475	1.24	2.30	2.88	1.27	2.48	3.30
1.500	0.34	1.32	1.84	2.82	3.95	4.79
1.525	0.05	0.69	1.21	4.97	5.80	6.55
1.550	0.01	0.32	0.72	7.36	7.65	8.43

Previous day's vol., Calls N/A Puts N/A. Prev. day's open int., Calls N/A Puts N/A

WORLD INTEREST RATES

MONEY RATES

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

■ THREE MONTH EUROLIRA INT.RATE FUTURES (LIFFE) L1000m points of 100%

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

* LIFFE futures traded on APT

EURO CURRENCY INTEREST RATES

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

■ THREE MONTH EURODOLLAR (LIFFE) $1m points of 100%

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

UK INTEREST RATES

LONDON MONEY RATES

UK clearing bank base lending rate 5½ per cent from November 23, 1993

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

Traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9450	0.14	0.36	0.44	0.09	0.06	0.12
9475	0.04	0.20	0.28	0.16	0.16	0.21
9500	0.01	0.09	0.17	0.40	0.29	0.35

Est. vol. total, Calls 36142 Puts 24078. Previous day's open int., Calls 184034 Puts 151187

BASE LENDING RATES

	%		%		%
Adam & Company	6	Duncan Lawrie	5.5	●Rea Brothers	6
Allied Trust Bank	5.5	Exeter Bank Limited	7	*Roxburghe Bank Ltd	6
AIB Bank	5.5	Financial & Gen Bank	7	* (in administration)	
●Henry Ansbacher	5.5	●Robert Fleming & Co	5.5	Royal Bk of Scotland	5.5
Bank of Baroda	6	Girobank	5.5	●Smith & Williamson Secs	5.5
Banco Bilbao Vizcaya	8	●Guinness Mahon	6	Standard Chartered	5.5
Bank of Cyprus	6	Habib Bank AG Zurich	6	TSB	5.5
Bank of Ireland	6	●Hambros Bank	5.5	●United Bk of Kuwait	5.5
Bank of India	6	Heritable & Gen Inv Bk	6	Unity Trust Bank Plc	5.5
Bank of Scotland	5.5	●Hill Samuel	5.5	Western Trust	6
Barclays Bank	5.5	C. Hoare & Co	6	Whiteaway Laidlaw	5.5
Brit Bk of Mid East	5.5	Hongkong & Shanghai	5.5	Wimbledon & Sth West	7
●Brown Shipley	5.5	Julian Hodge Bank	5.5	Yorkshire Bank	5.5
CL Bank Nederland	8	●Leopold Joseph & Sons	5.5		
Citibank NA	5.5	Lloyds Bank	5.5		
City Merchants Bank	6	Meghraj Bank Ltd	5.5		
Clydesdale Bank	5.5	Midland Bank	5.5		
The Co-operative Bank	5.5	* Mount Banking	6		
Coutts & Co	5.5	* (in administration)			
Credit Lyonnais	5.5	NatWestminster	5.5		
Cyprus Popular Bank	6				

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

NOTES - Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate'. Int Cr: Frequency at which interest is credited to the account.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 23 / Sch)

BELGIUM/LUXEMBOURG (Nov 23 / Frs.)

DENMARK (Nov 23 / Kr)

FINLAND (Nov 23 / Mkk)

FRANCE (Nov 23 / Frs.)

GERMANY (Nov 23 / Dm.)

ITALY (Nov 23 / Lira)

NETHERLANDS (Nov 23 / Fls.)

NORWAY (Nov 23 / Kroner)

SPAIN (Nov 23 / Pts.)

SWEDEN (Nov 23 / Kronor)

SWITZERLAND (Nov 23 / Frs.)

PACIFIC

JAPAN (Nov 22 / Yen)

HONG KONG (Nov 23 / H.K.$)

MALAYSIA (Nov 23 / MYR)

SINGAPORE (Nov 23 / S$)

AUSTRALIA (Nov 23 / Aust.$)

NORTH AMERICA

CANADA

TORONTO (Nov 23 / Can $) 4 pm close

MONTREAL (Nov 23 / Can $) 4 pm close

AFRICA

SOUTH AFRICA (Nov 23 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. (na) unavailable. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

FT FREE ANNUAL REPORTS SERVICE
You can obtain the current annual reports of companies annotated with ♣. Ring 081 643 7181 or fax 081 770 3822, quoting FT Japan. If calling from outside UK, dial +44 81 643 7181 or fax +44 81 770 3822, quoting FT Japan. The Reports will be sent on the next working day. If faxing please remember to note FT Japan and also your post code.

■ TOKYO - MOST ACTIVE STOCKS: Monday, November 22, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	5.7m	317	-12	Hitachi	2.6m	790	-12
NKK	3.0m	230	-18	Sumitomo Mt Mn	2.2m	801	-19
Kawasaki Steel	2.7m	313	-7	Daiwa Sec	2.1m	1,220	-60
Fujitsu	2.7m	776	-20	Hitachi Zosen	2.0m	499	-21
Mitsubishi Hvy	2.7m	829	-15	Sankyo	2.0m	2,420	-230

INDICES

US INDICES

Standard and Poors							
Composite ‡	459.13	462.80	463.62	469.50 (16/10)	429.05 (8/1)	469.50 (16/10/93)	4.40 (1/6/32)
Industrials¶	533.12	537.06	537.56	540.25 (16/11)	496.48 (25/4)	540.25 (16/11/93)	3.62 (21/6/32)
Financial	42.49	42.96	43.10	46.40 (26/8)	39.89 (8/1)	46.40 (26/8/93)	8.64 (1/10/74)
NYSE Comp.	253.25	255.53	256.20	260.48 (15/10)	236.21 (8/1)	260.48 (15/10/93)	4.46 (25/4/42)
Amex Mkt Val	460.88	467.86	469.54	484.28 (2/11)	395.84 (8/1)	484.28 (2/11/93)	29.31 (9/12/72)
NASDAQ Cmp	738.13	751.58	754.34	787.42 (15/10)	645.87 (25/4)	787.42 (15/10/93)	54.87 (31/10/72)

DJ Ind. Day's High 3897.82 (3711.05) Low 3827.79 (3640.07) (Theoretical♦)
Day's high 3892.81 (3694.01) Low 3850.97 (3657.12) (Actual♦)

■ RATIOS

	Nov 10	Nov 12	Nov 5	Year ago
Dow Jones Ind. Div. Yield	2.71	2.80	2.77	3.19
	Nov 17	Nov 10	Nov 3	Year ago
S & P Ind. Div. yield	2.38	2.40	2.41	2.65
S & P Ind. P/E ratio	28.88	28.69	28.61	27.72

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	459.55	460.55	+1.05	460.60	458.50	66,630	191,582
Mar	461.80	460.50	-2.19	-	-	1,090	12,593
Jun	462.80	461.55	-2.19	-	-	13	1,972
Sep	-	462.70	-2.05	-	-	1	439

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Paramount	6,801,400	79	+2¾
Merck	5,648,100	33⅝	-1½
Unilever	5,612,300	110	—
Burlington	5,190,000	45½	+1⅛
Chrysler	3,152,800	52¼	-2
Telefonos	3,036,400	58	-⅝
Wal-Mart	2,994,800	29⅝	-⅞
Gen Motors	2,912,700	52½	-1¼
RJR Nabisco	2,770,500	6⅝	...
Ford Motor	2,733,800	59⅝	-2½

■ TRADING ACTIVITY

Volume (million)	Nov 22	Nov 19	Nov 18
New York SE	276.780	283.068	273.150
Amex	17.435	18.031	15.228
NASDAQ	302.138	319.113	372.059
NYSE			
Issues Traded	2,686	2,690	2,671
Rises	493	793	780
Falls	1,705	1,323	1,267
Unchanged	488	574	624
New Highs	20	29	36
New Lows	107	72	62

■ CAC-40 STOCK INDEX FUTURES (MATIF)

† Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's).

4 pm close November 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

Continued on next page

to proceed.
In the Ukraine, unable and Electricité de France, told the

4 pm close November 23

NYSE COMPOSITE PRICES

Continued from previous page

[illegible]

NASDAQ NATIONAL MARKET

4 pm close November 23

[illegible]

AMEX COMPOSITE PRICES

4 pm close November 23

[illegible]

AMERICA

AMR declines as crew strike is called off

Wall Street

Supported by a rally in the beleaguered bond market, US share prices traded in a narrow range either side of opening values yesterday, *writes Patrick Harverson in New York.*

At 1pm, the Dow Jones Industrial Average was down 1.11 at 3,669.14. The more broadly based Standard & Poor's 500 was up 0.60 at 459.73, while the Amex composite was 0.89 lower at 459.99, and the Nasdaq composite up 4.24 at 742.37. Trading volume on the NYSE was 153m shares by 1pm.

The stage was set for a positive opening on US stock markets when bond prices rallied in early trading. The benchmark 30-year bond rose more than three quarters of a point, and its yield dropped to 6.32 per cent. The bond market rally was sparked by several factors, including news of e surprise interest rate cut in the UK by the Bank of England.

Financial markets across the globe have been concerned about rising interest rates, and the BoE's move helped allay some of those concerns, if only temporarily. With bonds rising and interest rates in Europe declining, US equity investors were in more upbeat mood yesterday. Although there was some early buying, traders said that business was light, primarily because the markets were already winding down ahead of the long Thanksgiving weekend holiday.

Among individual stocks, AMR, parent of American Airlines, dropped $2¾ to $65⅞ on the news that the carrier's flight attendants had ended their strike after both sides were pressured by President Clinton to seek a government mediated settlement. Investors reacted badly to the news because they feared that the government mediator would force American to dilute its package of cost-cutting measures which analysts had hoped would put the carrier back on the road to long-term profitability.

Other airline stocks fell along with AMR, which was also hit by a ratings downgrade from broking houses Bear Stearns and Merrill Lynch.

Delta dropped $1⅜ to $57⅝, UAL fell $2⅞ to $136⅝ and USAir eased $⅛ to $13⅝.

Paramount Communications fell $2⅞ to $76¼ as investors bet that Viacom, in spite of its lower offer, will defeat QVC Network in the battle to take over the entertainment group. On the American Stock Exchange Viacom "A" shares were up $⅞ at $47⅞, its "B" shares up $1⅛ at $42, and QVC was down $1 at $48⅝ on the Nasdaq market.

Metals stocks were firmer, with Aluminum Company of America up $1⅛ at $73¾ and Reynolds Metals up $1 at $47⅞.

Leading Nasdaq technology stocks were mostly firmer, with Intel up $1⅛ at $58⅞. Microsoft $1⅛ higher at $78⅞ and Borland International up $⅞ at $16. The exception was Apple, which eased $1 to $31⅞.

Canada

Toronto was flat at midday ahead of an expected decline in the Bank of Canada's key lending rate later in the day. The TSE 300 index shed 2.3 to 4,197.85 at noon in volume of 24.5m shares.

SOUTH AFRICA

Industrials reconped some early losses but ended the session down 17 at 4,867. The gold and overall indices both shed 29 to 1,944 and 4,224 respectively.

Rengro dropped 75 cents to R29.25, Barlows gained 10 cents to R44.35 and Vaal Reefs fell R6 to R393.

Times Media added R2.50, or 7.9 per cent, to R33 and Loraine lost R1 to R19.50

EUROPE

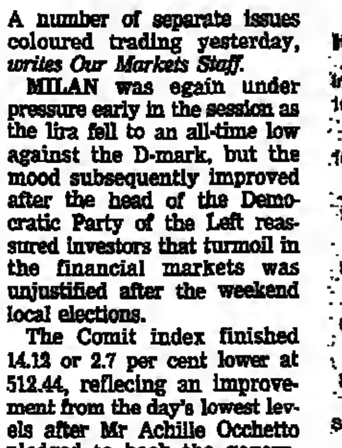
Milan falls 2.7 per cent despite late recovery

A number of separate issues coloured trading yesterday, *writes Our Markets Staff.*

MILAN was again under pressure early in the session as the lira fell to an all-time low against the D-mark, but the mood subsequently improved after the head of the Democratic Party of the Left reassured investors that turmoil in the financial markets was unjustified after the weekend local elections.

The Comit index finished 14.12 or 2.7 per cent lower at 512.44, reflecting an improvement from the day's lowest levels after Mr Achille Occhetto pledged to back the government until the budget had been approved. Investors were heartened that he also stressed the importance of protecting savings, pushing through privatisations and keeping up the battle against inflation.

Earlier in London, Mr Oliver Kamm and Mr William Cowan of James Capel commented that the equity market had been discounting investor concerns about political instability over the past few weeks and in the short term, investors might focus on the risk to the pace of administrative reform and fiscal consolidation posed by the decline of the centre parties.



Source: Datastream

However, the macroeconomic and corporate earnings outlook for 1994 appeared favourable, while the support gained by the parties of the far left and far right was unlikely to be replicated in elections for a national government, they said.

The telecommunications stocks were again marked down. Sip fell L56 to L2961 in volume of 27.7m shares and Stet was L9 lower at L3,419 in volume of 14m shares.

FRANKFURT saw a day of contrasts with the DAX index moving between a high of 2,041 and a low of 2,015, before settling off 2.59 at 2,027.41.

Some analysts commented that the market was now waiting for inflation data, due out either today or tomorrow before deciding its next direction.

Mannesmann, which is due to release nine month data today, was down DM1.70 at DM359.00.

Wella went against the trend, rising DM7 to DM835, after it reported a 5 per cent gain in pre-tax profits for the year to September.

PARIS was upset by the profits warning from Elf Aquitaine and the shares of the oil group fell FFr15.80 or 3.5 per cent to FFr416.70.

The CAC-40 index lost 11.14 to 2,071.47, after a high of 2,094 and a low of 2,059, on the last day of the account.

The oil group, which is slated for privatisation next year, said that it expected 1993 profits to fall to around FFr1bn after FFr6.2bn in 1992.

Its Elf Sanofi division went in the opposite direction, rising FFr3 to FFr928, in spite of also reducing its estimates for the full year.

AMSTERDAM remained interested in KLM, the shares rising 30 cents to Fl 37.50, following the collapse of the Alcazar talks and news that the airline would continue to search for ways of reducing costs.

The CBS Tendency index slipped 0.1 to 133.5, after a high of 134.3 and a low of 132.1.

KNP BT, the paper and packaging group, was 20 cents higher at Fl 40.50 ahead of today's results.

ZURICH edged higher, taking its lead from firmer Nestlé and Roche shares, and the SMI index added 5.6 to 2,702.1.

Nestlé, SFr13 higher at SFr1,170, topped the active list ahead of its autumn news conference today. Alusuisse, with a presentation to analysts this morning, was SFr7 easier at SFr522.

Roche rose SFr40 to SFr5,930 in active trade, recouping some of Monday's SFr140 slide. BBC closed SFr7 lower at SFr1,017 after ABB Asea Brown Boveri said it expected 1993 profits after financial items at the same level as in 1992.

Holderbank eased SFr1 to SFr820 as it sold 200,000 shares to Union Bank, which announced a warrant bond on Holderbank shares with an exercise price of SFr823.

STOCKHOLM was lower in nervous trade amid concern over higher debt market yields and a weaker crown. The Affärsvärlden index fell 11.3 to 1326.1, in turnover of SKr1.98bn.

Asea did better than the overall bourse, its B share falling SKr8 to SKr549 on its nine-month results which proved in line with expectations.

Written and edited by John Pitt and Michael Morgan.

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

Nov. 23 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1317.74	1321.46	1325.30	1323.35	1324.09	1327.59	1328.01	1325.47
FT-SE Eurotrack 200	1387.32	1384.54	1387.62	1387.41	1386.44	1389.73	1389.32	1383.97

	Nov. 22	Nov. 19	Nov. 18	Nov. 17	Nov. 16
FT-SE Eurotrack 100	1331.12	1360.53	1367.82	1363.56	1363.29
FT-SE Eurotrack 200	1386.17	1429.27	1427.61	1423.11	1416.29

Base value 1000 (26/10/90) High/day: 100 - 1328.59; 200 - 1400.22 Low/day: 100 - 1317.48 200 - 1387.30

Divided picture from European chemicals

Shares have risen against a background of poor earnings, writes **Paul Abrahams**

At first sight, the performance of European chemicals stocks this year has been impressive. Since the beginning of January, BASF's shares have risen 30 per cent, Bayer's 22 per cent and Hoechst's 12 per cent. In the Netherlands, DSM is up 35 per cent. Akzo was up 42 per cent until it announced its merger with Nobel of Sweden this month. Even Solvay of Belgium is up 24 per cent.

But although all chemicals stocks have increased in value this year, most have underperformed their respective local markets. Ms Jackie Asburst, chemicals analyst at James Capel, reckons it has been the third worst performing sector in Europe this year. Hoechst has underperformed the market by 17 per cent this year, for example. Nevertheless, the chemical sector's underperformance has not been as great as it might have been given its present predicament.

The continuing rise of chemicals stocks sits oddly with the piteous state of the European chemicals market. While share prices have risen, quarterly results have been progressively more disappointing.

The outlook for next year remains grim. This week, Mr Jürgen Strube, BASF chairman, said that his group was likely to cut its dividend again this year and he expected business to remain weak before turning up in 1995.

The reasons for the dire financial performance of continental chemicals groups are not hard to find. Commodity chemicals are having a rough time. Weakening demand growth and overcapacity have hit prices and undermined margins. Few petrochemicals makers, for example, are making money at the moment.

At the same time, those companies with large pharmaceuticals divisions – normally a good hedge against wickedly cyclical commodity chemicals – have been hit by healthcare reform in most of Europe's largest countries.

The German market, Europe's largest, has registered a 10 per cent fall over the first nine months this year, while the Italian sector has suffered a 3 per cent fall.

Although all chemicals stocks have increased in value this year, most have underperformed their respective local markets. Hoechst, for example, has under-performed by 17 per cent this year.

Such was their decline that the European drugs market recorded no growth during the nine months to September, probably the first time the sector has ever gone ex-growth.

Groups such as Hoechst and BASF have warned their dividends may have to be cut.

The apparently resilient stock market performance of the chemicals groups has been driven partly by fund managers choosing to invest in countries rather than sectors.

Given that the large chemicals groups are so liquid, investors in Germany are likely to build their positions in BASF, Bayer and Hoechst, while those wanting to put money in the Dutch or Belgian markets are likely to pick DSM, Akzo or Solvay.

Fundamentals are also driving the sector. The US recovery, strong US dollar and falling interest rates have added to its attractions. The stocks' yields also remain high compared with long-term bonds.

The possibility of improved earnings in the medium-term is also holding up share prices. At every industry conference and every results meeting, chemicals groups have been warning about the need for restructuring. This is not new. But there seems to be a greater sense of urgency than for many years.

This week, Enichem, the Italian state-owned group, announced 10,000 job losses over the next four years. Earlier this month, BASF announced 3,000 job cuts by the end of 1995. Plant closures are also in the pipeline, aimed at reducing costs as well as capacity. Any improvement in companies' cost-base should fall through to the bottom line, and any cut in capacity should help prices.

Even though corporate results are likely to make grim reading over the next 12 months, the downside to the chemicals market is likely to be limited, says Ms Ashurst. The dangers of missing out on a pre-recovery rally of chemicals stocks are simply too great.

Poland gives priority to public offers

Poland's new centre left government will be giving "top priority" to public share offerings to boost the development of the Warsaw Stock Exchange (WSE), *writes Christopher Bobinski in Warsaw.*

Mr Marek Borowski, deputy premier in charge of the economy, told a conference on "How to become a publicly quoted company" that the 22 companies quoted on the WSE had better results than state-owned or private companies.

The high turn-out at the conference reflects growing domestic interest in share offers as a way of raising capital in the wake of a continuing 10-month boom on the WSE. This has lifted share prices eight-fold, capitalising the market at around $1.8bn. WSE regulators estimate that one-third of the trading is done by foreigners, who own 20 per cent of the shares. The WIG indicator rose 5.2 per cent yesterday to 8,680.

ASIA PACIFIC

Interest rate outlook takes its toll

Concern over the potential effect of higher US interest rates on the liquidity in Pacific Rim markets remained a dominant theme in the region. Tokyo was closed for a holiday yesterday.

HONG KONG recorded a sixth consecutive loss amid concern over the direction of US rates. The Hang Seng index fell 134.62, or 1.47 per cent to 9,036.02, having been 247 points lower earlier in the day. The market has fallen by 8.0 per cent since its peak of 9,825.50 points established on Monday last week.

HSBC fell 50 cents to HK$85.00, Henderson Land lost HK$1.75 to HK$33.00 and Jardine Matheson dipped HK$1.00 to HK$67.50.

China-linked shares were also weak. Shanghai Petrochemical fell 12.5 cents to HK$2.50 while China Overseas shed 17.5 cents to HK$2.20 and Maanshan Iron was down 7.5 cents to HK$3.90.

SEOUL tumbled on across-the-board profit-taking with demand for export-oriented issues failing to halt the retreat. The composite index lost 16.68 to 817.90 with 403 of the 755 losing stocks going limit down.

Source: Datastream

However, analysts noted that underlying market sentiment remained positive, reinforced by optimism over the prospects of economic recovery with provisional Bank of Korea figures showed third quarter GNP grew a higher than expected 6.5 per cent from 3.3 per cent a year earlier.

AUSTRALIA fell steeply on arbitrage in the futures market which drove the December contract down to a discount. The All Ordinaries index lost 39.7 to 2,009.6 in turnover of A$436.6m.

Among the fallers News Corp lost 31 cents to A$9.52, its lowest close since late August. BHP shed 16 cents to A$16.90, Coles Myer lost 12 cents to A$5.12, and Western Mining dropped 21 cents to A$5.50.

SINGAPORE was dragged lower by profit-taking and the Straits Times Industrials index lost 20.03 to 2,076.69 in relatively thin volume of 177.43m shares.

KUALA LUMPUR fell over a broad front leaving the composite index, which breached the psychological 1,000-point level on Monday, down 22.52 or 2.3 per cent, at 966.88.

Losers included the utility giants Tenaga Nasional and Telekom Malaysia which fell 30 and 60 cents respectively to M$15.60 and M$18.50 ringgit. They both account for nearly 40 percent of the composite index's weighting.

But Lien Hoe rose 26 cents to M$3.80 on takeover rumours in heavy volume of 12.6m shares.

MANILA saw further profit-taking leave the composite index down 29.33 points at 2,388.80. Turnover was 1.35bn pesos.

Philippine Long Distance Telephone lost 15 pesos to 1,790 pesos and Philippine National Bank shed 10 pesos to 435.

TAIWAN resisted the trend elsewhere in the region but the mood remained cautious ahead of Saturday's local government elections. The weighted index closed 17.81 higher at 4,234.75 in turnover of T$22.6bn.

The electronics sector continued to attract buyers, with Acer finishing up 40 cents at T$32.10.

NEW ZEALAND was broadly lower, while Air New Zealand went against the trend on data showing a rise in October tourist figures, rising 3 cents to NZ$2.97. The NZSE-40 capital index fell 28.53 to 2,044.80 in turnover of some NZ$54m.

JAKARTA rebounded slightly in late trading but still finished lower overall following falls in blue chip stocks. The composite index fell 13.15 to 523.314.

Barito Pacific Timber, the wood processor and Jakarta's largest stock, ended down Rp900 to Rp12,700 reflecting a sharp fall in plywood prices since August.

BANGKOK recovered slightly in afternoon trading helped by strength in banks. The SET index ended down 4.89 at 1,305.24, after a day's low of 1,271.70, in turnover of Bt12.25bn.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY NOVEMBER 22 1993 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY NOVEMBER 19 1993 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1993 High	1993 Low	Year ago (approx)
Australia (69)	153.66	-1.4	154.51	105.15	136.09	154.48	-1.6	3.36	155.81	156.93	106.66	138.60	157.03	162.83	117.39	115.32
Austria (17)	173.45	-0.5	174.40	118.69	153.62	153.57	-0.9	1.04	174.24	175.49	119.28	155.36	154.91	184.47	131.18	140.46
Belgium (42)	151.70	-0.7	152.54	103.80	134.35	135.24	-1.6	4.26	152.77	153.87	104.58	136.21	137.33	156.70	131.18	135.05
Canada (107)	132.21	-0.0	132.94	90.46	117.09	127.28	-0.8	2.56	133.43	134.39	91.34	118.96	128.26	135.54	111.41	112.15
Denmark (32)	235.58	-0.1	236.87	161.20	208.64	216.52	-0.7	1.05	235.91	237.61	161.51	210.35	218.11	241.06	165.11	186.14
Finland (23)	121.90	-0.9	122.57	83.42	107.96	147.95	-1.4	0.71	122.96	123.87	84.20	109.66	150.07	128.99	65.50	65.12
France (98)	160.64	-2.0	161.52	109.92	142.26	149.18	-2.5	3.11	163.95	165.13	112.23	146.17	153.02	173.06	142.72	138.83
Germany (60)	130.10	-1.4	130.81	89.03	115.22	115.22	-2.0	1.84	131.91	132.86	90.31	117.61	117.61	136.13	101.59	104.52
Hong Kong (55)	374.01	-0.8	376.06	255.92	331.25	371.03	-0.8	2.95	376.94	379.66	258.05	336.11	373.84	384.34	218.82	236.01
Ireland (14)	172.39	-0.4	173.34	117.96	152.68	172.95	-0.8	3.27	173.08	174.32	118.49	154.32	174.32	177.89	129.26	128.57
Italy (70)	58.47	-5.2	58.79	40.01	51.78	73.50	-4.0	2.28	61.66	62.11	42.21	54.96	77.32	78.96	55.70	58.72
Japan (469)	139.50	-2.9	140.26	95.45	123.56	95.45	-2.9	0.86	143.59	144.62	98.30	128.05	98.30	165.91	100.75	108.19
Malaysia (69)	478.17	+0.1	480.78	327.18	423.48	469.79	+0.0	1.48	477.67	481.11	326.99	425.89	469.67	487.72	261.66	277.36
Mexico (19)	2017.89	+1.1	2026.96	1360.77	1767.14	6849.32	+0.7	0.72	1995.15	2009.50	1365.84	1778.92	6803.78	2017.89	1410.30	1521.77
Netherland (26)	187.02	-1.1	188.04	127.87	165.64	163.12	-1.7	3.25	189.07	190.43	129.43	168.59	165.99	197.07	150.39	148.70
New Zealand (13)	63.18	-1.3	63.54	43.24	55.97	61.24	-1.2	3.85	64.04	64.50	43.84	57.10	62.01	68.38	40.58	39.92
Norway (23)	175.20	-1.1	176.16	110.89	155.17	178.33	-1.4	1.48	177.11	178.38	121.25	157.92	178.91	185.10	137.71	134.99
Singapore (39)	312.63	+0.4	314.34	213.92	276.67	230.22	+0.3	1.39	311.48	313.72	213.24	277.72	229.45	332.55	207.04	195.10
South Africa (60)	229.02	-0.2	230.27	156.70	202.82	216.99	+0.6	2.48	229.39	231.04	157.03	204.52	215.72	229.39	144.72	134.27
Spain (42)	135.61	-1.5	136.36	92.80	120.10	141.47	-1.5	4.22	137.70	138.69	94.27	122.78	143.75	145.24	115.23	118.28
Sweden (36)	184.87	-2.0	185.89	126.51	163.74	227.71	-2.2	1.53	188.55	189.91	128.06	165.12	232.70	208.92	149.70	164.52
Switzerland (50)	146.04	-0.3	146.84	99.94	129.38	135.18	-1.2	1.61	146.51	147.56	100.30	130.65	136.86	148.18	108.91	103.86
United Kingdom (218)	183.67	-1.0	184.68	125.67	162.65	184.68	-1.1	3.89	185.46	186.81	126.96	165.36	186.81	193.97	162.00	164.38
USA (518)	186.78	-0.8	187.80	127.81	165.43	186.78	-0.8	2.77	188.28	189.63	128.90	167.89	188.28	191.56	175.38	173.80
Europe (751)	154.70	-1.3	155.55	105.86	137.02	149.99	-1.7	3.03	156.78	157.91	107.33	139.79	152.61	162.97	133.82	131.36
Nordic (114)	180.52	-1.3	161.50	123.52	159.67	191.75	-1.7	1.30	182.93	184.24	125.23	163.10	195.04	194.54	142.13	147.33
Pacific Basin (714)	148.64	-2.5	149.45	101.71	131.64	105.64	-2.6	1.14	152.49	153.59	104.40	136.97	108.43	169.90	105.89	108.06
Euro-Pacific (1465)	151.04	-2.0	151.87	103.35	133.78	123.09	-2.2	1.94	154.16	156.27	105.53	137.45	125.86	162.86	117.28	117.47
North America (625)	183.38	-0.8	184.38	125.49	162.43	182.69	-0.8	2.76	184.86	186.19	126.56	164.85	184.16	187.66	171.51	169.96
Europe Ex. UK (533)	139.12	-1.5	136.86	93.18	120.58	129.48	-2.1	2.46	138.25	139.25	94.67	123.30	132.24	143.73	112.81	111.51
Pacific Ex. Japan (245)	236.66	-0.7	237.96	161.96	209.62	219.70	-0.8	2.70	238.36	240.06	163.20	212.55	221.46	245.12	152.70	155.61
World Ex. US (1651)	152.55	-1.9	153.38	104.39	135.11	125.89	-2.1	1.95	155.53	156.65	106.48	138.69	128.57	162.89	118.51	118.32
World Ex. UK (1951)	161.00	-1.5	161.88	110.17	142.60	140.63	-1.8	2.09	163.53	164.70	111.95	145.82	143.20	168.66	134.22	133.42
World Ex. So. Af. (2109)	162.63	-1.5	163.52	111.29	144.05	144.14	-1.8	2.26	165.12	166.31	113.05	147.24	146.51	170.46	137.29	136.24
World Ex. Japan (1700)	177.09	-0.9	178.06	121.19	156.87	173.76	-1.1	2.82	178.76	180.07	122.40	159.43	175.65	181.67	157.47	154.77
The World Index (2169)	162.99	-1.5	163.89	111.54	144.37	144.75	-1.8	2.26	165.47	166.66	113.26	147.54	147.10	170.68	137.32	136.11

Latest prices were unavailable for this edition.